INOVA HEALTH SYSTEM **Audited Consolidated Financial Statements and Other Supplementary** Information **Fiscal Year Ended December 31, 2019**

Inova Health System Audited Consolidated Financial Statements And Other Supplementary Information December 31, 2019 and 2018

Audited Consolidated Financial Statements

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Report of Independent Auditors

The Board of Trustees Inova Health System

We have audited the accompanying consolidated financial statements of Inova Health System (IHS), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of IHS at December 31, 2019 and 2018, and the consolidated results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 20, 2020

Inova Health System Consolidated Balance Sheets December 31, 2019 and 2018

(in thousands)

| | 2019 | 2018 |
|--|---------------------------------------|---------------------------------------|
| | | (as adjusted)* |
| ASSETS | | |
| Current Assets | 40 | 4.250 |
| Cash and cash equivalents | | 4,350 \$ 333,100 |
| Assets whose use is limited, current | | 8,565 198,955 |
| Patient accounts receivable, net | | 3,704 321,920 |
| Other current assets | | 2,719 136,930 |
| Total Current Assets | ŕ | 9,338 990,905 |
| Property, Equipment and Leasehold Interests, net (Note 5) | 2,49 | 5,620 2,379,913 |
| Assets Whose Use Is Limited (Notes 2, 6, 7, 14) Held by bond trustee | | 2,888 135,679 |
| By board for plant replacement and expansion | | 5,931 4,400,115 |
| • | | |
| By board for construction projects By donor | | |
| • | | 7,693 135,341 |
| For professional liability | 9 | 2,826 80,422 |
| For health plan liability | 5 76 | 552 534 7,942 4,921,404 |
| Less amounts required to meet current obligations | · · · · · · · · · · · · · · · · · · · | 8,565) 4,921,404 (198,955) |
| Total Assets Whose Use Is Limited, non-current | | 9,377 (198,933) |
| , | 3,30 | 9,577 4,722,449 |
| Other Assets Investments in and receivables from affiliates (Note 8) | 7 | 0,436 63,053 |
| Goodwill and other intangible assets, net (Note 9) | | 7,379 42,233 |
| Long-term right of use asset (Note 12) | | 6,644 131,627 |
| Long-term investments | | 0,479 49,766 |
| Interest rate swap (Note 11) | | - 6,522 |
| Other long-term assets | 8 | 0,001 80,502 |
| Total Other Assets | | 4,939 373,703 |
| TOTAL ASSETS | \$ 9,54 | 9,274 \$ 8,466,970 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable and other accrued expenses | \$ 44 | 6,503 \$ 406,078 |
| Third-party settlements | 4 | 4,621 46,657 |
| Notes payable and other liabilities | 11 | 2,327 112,849 |
| Financing obligation (Note 13) | 18 | 3,167 |
| Current portion of long-term debt (Note 10) | 22 | 8,861 228,429 |
| Current lease liability (Note 12) | 2 | 9,707 34,562 |
| Total Current Liabilities | 1,04 | 5,186 828,575 |
| Non-current Liabilities | 1.40 | 2 000 |
| Long-term debt, less current portion (Note 10) | 1,42 | 2,080 1,463,060 |
| Financing obligation (Note 13) | 4.0 | - 184,461 |
| Long-term lease liability (Note 12) | | 1,303 112,345 |
| Interest rate swap (Note 11) | | 2,977 – |
| Other non-current obligations Total Non-current Liabilities | | 7,609 3,969 69,146 1,829,012 |
| Net Assets | 1,50 | 1,027,012 |
| Without donor restrictions | 6.68 | 4,613 5,597,522 |
| With donor restrictions | | 4,248 191,237 |
| Total Net Assets Attributable to IHS | | 8,861 5,788,759 |
| Non-controlling interest | | 1,258 20,624 |
| Total Net Assets | | 0,119 5,809,383 |
| TOTAL LIABILITIES AND NET ASSETS | | 9,274 \$ 8,466,970 |
| | Ψ 2,3τ | φ 0,100,270 |

^{*}Refer to Note 2 regarding the adoption of the new lease accounting standard, including impacts on previously reported results.

See notes to the consolidated financial statements.

Inova Health System Consolidated Statements of Operations and Changes in Net Assets For the Years Ended December 31, 2019 and 2018 (in thousands)

| | 2019 | 2018 | |
|---|-----------------|-----------------|--|
| Operating Revenues | | | |
| Net patient service revenue | \$ 3,624,779 | \$ 3,249,667 | |
| Other operating revenue | 139,094 | 153,168 | |
| Total Operating Revenues | 3,763,873 | 3,402,835 | |
| Operating Expenses | | | |
| Salaries and benefits | 1,834,466 | 1,693,913 | |
| Other operating expenses | 1,406,478 | 1,238,001 | |
| Depreciation and amortization | 249,874 | 224,632 | |
| Interest | 53,342 | 50,135 | |
| Total Operating Expenses | 3,544,160 | 3,206,681 | |
| Operating Income before Gain on Disposal of Business Line | 219,713 | 196,154 | |
| Gain on disposal of business line | | 4,714 | |
| Operating Income | 219,713 | 200,868 | |
| Investment income (loss) and other, net | 883,886 | (344,242) | |
| Excess of Revenues Over Expenses (Expenses over Revenues) | 1,103,599 | (143,374) | |
| Less: Non-controlling interest | (15,916) | (13,841) | |
| Excess of Revenues Over Expenses (Expenses over | | | |
| Revenue), Attributable to IHS | 1,087,683 | (157,215) | |

Continued on page 4.

See notes to the consolidated financial statements.

Inova Health System Consolidated Statements of Operations and Changes in Net Assets (continued) For the Years Ended December 31, 2019 and 2018 (in thousands)

| | Without Donor Restrictions | | With Dono Restriction | | | | Total | |
|--|-------------------------------|-----------|-----------------------|----------|----|----------|-------|-----------|
| Balance at December 31, 2017 | | 5,744,855 | \$ | 160,448 | \$ | 19,422 | \$ | 5,924,725 |
| Excess of expenses over revenues (from page 3) | | (157,215) | | _ | | 13,841 | | (143,374) |
| Unrealized gain (loss) on investments, net | | 804 | | (1,583) | | _ | | (779) |
| Sale of non-controlling position | | 8,624 | | _ | | _ | | 8,624 |
| Gifts and bequests | | _ | | 51,008 | | _ | | 51,008 |
| Restricted investment income | | _ | | (225) | | _ | | (225) |
| Net assets released from restriction | | _ | | (18,617) | | _ | | (18,617) |
| Other changes in non-controlling equity interest | | (784) | | _ | | (12,639) | | (13,423) |
| Other | | 1,238 | | 206 | | _ | | 1,444 |
| Change in Net Assets | | (147,333) | | 30,789 | | 1,202 | | (115,342) |
| Balance at December 31, 2018 (as adjusted)* | | 5,597,522 | | 191,237 | | 20,624 | | 5,809,383 |
| Excess of revenues over expenses (from page 3) | | 1,087,683 | | _ | | 15,916 | | 1,103,599 |
| Unrealized (loss) gain on investments, net | | (272) | | 1,574 | | _ | | 1,302 |
| Gifts and bequests | | _ | | 37,037 | | _ | | 37,037 |
| Restricted investment income | | _ | | 2,669 | | _ | | 2,669 |
| Net assets released from restriction | | _ | | (18,620) | | _ | | (18,620) |
| Other changes in non-controlling equity interest | | (156) | | _ | | (15,282) | | (15,438) |
| Other | | (164) | | 351 | | _ | | 187 |
| Change in Net Assets | | 1,087,091 | | 23,011 | | 634 | | 1,110,736 |
| Balance at December 31, 2019 | \$ | 6,684,613 | \$ | 214,248 | \$ | 21,258 | \$ | 6,920,119 |

^{*}Refer to Note 2 regarding the adoption of the new lease accounting standard, including impacts on previously reported results.

See notes to the consolidated financial statements.

Inova Health System Consolidated Statements of Cash Flows For the Years Ended December 31, 2019 and 2018 (in thousands)

| | 2019 | | | 2018 | | |
|---|------|-------------|----------------|-------------|--|--|
| | | | (as adjusted)* | | | |
| Operating Activities | | | | | | |
| Change in net assets | \$ | 1,110,736 | \$ | (115,342) | | |
| Adjustments to reconcile change in net assets to net cash | | | | | | |
| provided by operating activities: | | | | | | |
| Depreciation and amortization | | 249,874 | | 224,632 | | |
| Net realized and unrealized (gains) losses on investments | | (836,812) | | 411,132 | | |
| Change in fair value of interest rate swaps | | 9,499 | | (4,849) | | |
| Equity investment losses (gains), net | | 3,706 | | (1,321) | | |
| Gain on sale of long-lived assets | | _ | | (2,253) | | |
| (Increase) decrease in accounts receivable and third-party | | | | , , | | |
| settlements, net | | (52,961) | | 10,135 | | |
| (Increase) decrease in other current assets | | (20,661) | | 25,784 | | |
| Increase (decrease) in accounts payable and other | | (, , | | , | | |
| current liabilities | | 53,535 | | (18,504) | | |
| Decrease in other non-current obligations | | (7,608) | | (2,606) | | |
| Restricted contributions and investment income | | (39,706) | | (51,035) | | |
| Other | | (23,817) | | (26,098) | | |
| Net Cash Provided by Operating Activities | | 445,785 | | 449,675 | | |
| Net Cash Provided by Operating Activities | | 115,765 | | 115,075 | | |
| Investing Activities | | | | | | |
| Capital expenditures | | (373,996) | | (437,710) | | |
| Proceeds from sale of long-lived assets | | _ | | 20,242 | | |
| Investments in and advances to joint ventures and affiliates | | (11,089) | | (10,205) | | |
| Purchases of investments | | (2,231,188) | | (1,124,176) | | |
| Proceeds from sale of investments | | 2,156,123 | | 1,087,557 | | |
| Net Cash Used in Investing Activities | | (460,150) | | (464,292) | | |
| Financing Activities | | | | | | |
| Principal payments on long-term debt | | (34,128) | | (43,178) | | |
| Proceeds from issuance of long-term debt | | _ | | 484,977 | | |
| Refunding of long-term debt | | _ | | (220,050) | | |
| Restricted contributions and investment income | | 39,424 | | 30,353 | | |
| Other | | (6,860) | | (2,724) | | |
| Net Cash (Used in) Provided by Financing Activities | | (1,564) | | 249,378 | | |
| Net (Decrease) Increase in Cash, Cash Equivalents | | (1,501) | | 21,5,570 | | |
| and Restricted Cash | | (15,929) | | 234,761 | | |
| and restricted outsi | | (10,020) | | 23 1,701 | | |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Year | | 487,261 | | 252,500 | | |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT | | | | | | |
| END OF YEAR | | 471,332 | | 487,261 | | |
| Less: Restricted cash included in assets whose use is limited | | , | | , | | |
| (Note 2) | | 66,982 | | 154,161 | | |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ | 404,350 | \$ | 333,100 | | |
| | Ψ | .0.,220 | | 222,130 | | |

^{*}Refer to Note 2 regarding the adoption of the new lease accounting standard, including impacts on previously reported results.

1. Nature of Operations

Organization: Inova Health System ("IHS") is an integrated, not-for-profit health care delivery system that owns, operates and manages clinical, educational, research and hospital facilities located in Northern Virginia, serving Northern Virginia, the Washington, D.C. metropolitan area and contiguous counties in Virginia and Maryland. The principal line of business for IHS is the delivery of acute care hospital services at five hospitals located in Northern Virginia. IHS also operates an integrated network of health services including a medical group, ambulatory care, home health care, senior services, assisted living and other health related services.

2. Summary of Significant Accounting Policies

Basis of Presentation: The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain reclassifications have been made to the 2018 consolidated financial statements to conform with classifications used in 2019. The reclassifications had no significant effect on total revenue or total excess revenue over expenses (expenses over revenue) previously reported.

Principles of Consolidation: The IHS accompanying consolidated financial statements include the accounts of the Inova Health System Foundation (the "Foundation"); Inova Health Care Services ("IHCS"); Loudoun Hospital Center ("LHC"); Inova Holdings, Inc. ("IHI"); and their majority-owned subsidiaries and controlled affiliates. All material intercompany accounts and transactions have been eliminated in consolidation.

The Foundation is a tax-exempt, non-stock corporation, which controls its affiliated corporations through its authority to appoint the governing boards of the tax-exempt, non-stock affiliates or its stock ownership. The Foundation also supports and maintains the programs, services, and facilities of IHS' health care delivery system in part through the solicitation, receipt, administration, and distribution of philanthropic gifts on behalf of its tax-exempt affiliates. Inova Health Plan, LLC ("IHP"), a former wholly-owned subsidiary of the Foundation previously known as INTotal, was a Medicaid HMO licensed and authorized to do business in Virginia.

IHCS is a tax-exempt, non-stock corporation that serves the health care needs of the community by establishing, maintaining and operating hospital and health care facilities, programs, and other shared and integrated health care delivery arrangements. IHCS operates the following facilities, among others: Inova Fairfax Hospital ("Fairfax"); Inova Mount Vernon Hospital ("Mount Vernon"), Inova Fair Oaks Hospital ("Fair Oaks") and Inova Alexandria Hospital ("Alexandria"). IHCS also provides and manages the clinical, non-hospital facilities and programs whose services include senior services, assisted living facilities, addiction treatment services for adults and adolescents, outpatient rehabilitation services, urgent care and other outpatient health care services. IHCS also maintains a group of primary care and specialty physicians operating as the Inova Medical Group.

LHC is a tax-exempt, non-stock corporation that serves the health care needs of Loudoun County, Virginia, and surrounding areas. In addition to Inova Loudoun Hospital ("Loudoun"), LHC operates Loudoun Nursing and Rehabilitation Center, Loudoun Healthcare Foundation and other health care and related facilities. Effective December 31, 2019, LHC merged into IHCS. In addition, Loudoun Healthcare Foundation and Alexandria Healthcare Foundation merged into the Inova Health System Foundation.

2. Summary of Significant Accounting Policies (continued)

IHI is a wholly owned subsidiary of the Foundation and is the parent holding company for various taxable entities within IHS including Technical Dynamics Inc., a biomedical equipment maintenance and engineering company. IHI and its subsidiaries operate facilities providing a variety of health care and support services to patients and to affiliated health care providers.

Cash and Cash Equivalents: IHS classifies as cash equivalents all highly liquid financial instruments with a maturity of three months or less when purchased, excluding those held in short-term investments and assets limited as to use. Cash equivalents are valued at cost, which approximates fair value.

Patient Accounts Receivable: Patient accounts receivable include charges for amounts due from all patients less price concessions relating to allowances for the excess of established charges over the payments to be received on behalf of patients covered by Medicare, Medicaid and other insurers. The provision for price concessions is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the price concessions based upon historical experience of self-pay accounts receivable, including those balances after insurance payments and not covered by insurance. The results of this review are then used to make any modifications to the provision for price concessions. There have been no significant changes in the current year to the underlying assumptions used by IHS to estimate the allowance for price concessions. Patient accounts receivable are written off after collection efforts have been followed in accordance with IHS policies.

All operating entities of IHS treat emergency patients and provide medically necessary treatment to patients regardless of their ability to pay. A patient is classified as a charity patient based upon established IHS' policies that consider patient income levels as well as other factors including credit histories and demographic information. Since IHS does not pursue collection of amounts that qualify as charity care, these amounts are deducted from gross revenue.

Assets Whose Use Is Limited: Assets whose use is limited include board-designated funds for plant replacement and expansion and construction projects, funds restricted by donors for charitable purposes, funds restricted to cover self-insurance liabilities, and trustee-held assets restricted for the retirement of long-term liabilities. The related restricted cash and cash equivalents included in funds by donor, for professional and health liabilities, and held by bond trustee are included the accompanying Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018.

Investments in equity securities with readily determinable fair values and all investments in debt securities held by IHS' custodian are designated as trading securities. Investment income (including realized gains and losses, unrealized gains and losses, interest, and dividends) is included in excess of revenues over expenses (expenses over revenues) unless such earnings are subject to donor-imposed restrictions. Investment income restricted by donor stipulations is reported as an increase in net assets with donor restrictions. Unrealized gains and losses on investments classified as other-than-trading are reported as a change in net assets without donor restrictions and, in accordance with relevant accounting literature, are excluded from excess of revenues over expenses (expenses over revenues). IHS also holds investments in limited partnerships as a conduit for investments that are not actively traded. These investments are summarized as alternative investments. Alternative investments are accounted for under the equity method of accounting using the net asset value ("NAV") practical expedient. Investments designated as other-than-trading are periodically reviewed for impairment conditions, including the magnitude and duration of the decline that indicate the occurrence of an other-than-temporary decline. If such conditions exist, the investment's cost is then written down to its current market value. IHS did not identify the occurrence of other-than-temporary declines in fair value for the years ended December 31, 2019 or 2018.

2. Summary of Significant Accounting Policies (continued)

Investment securities and limited partnerships, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risks associated with certain investment securities and limited partnerships, it is reasonably possible that changes in the value of the investments could occur in the short-term and that changes could materially affect the amounts reported in the IHS' consolidated financial statements.

Fair Value Measurements: IHS evaluates assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them for each reporting period. See Note 7.

Property, Equipment and Leasehold Interests: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets, and is computed using the straight-line method. The general range of useful lives is five to twenty years for land improvements, ten to thirty years for buildings, fixed equipment, and leasehold improvements, and five to ten years for major movable equipment. Software and other IT equipment are included in major movable equipment with useful lives of three to five years. Equipment under finance leases obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying Consolidated Statements of Operations and Changes in Net Assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Repairs and maintenance are expensed as incurred.

Donated assets are recorded at their fair value at the date of donation. Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Net Assets: Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated funds.

Net Assets with Donor Restrictions: Net assets with donor restrictions are those whose use by IHS has been limited by donors to a specific time period or purpose, or in perpetuity. Annual changes in fair value are reported as increases of decreases in net assets with donor restrictions.

Donor-restricted Gifts: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Contributions received are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as assets without donor restrictions and reported in the accompanying Consolidated Statements of Operations and Changes in Net Assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received and contributions received where no restrictions were stipulated are reflected as contributions without donor restrictions and reported in the accompanying consolidated financial statements as other operating revenue.

2. Summary of Significant Accounting Policies (continued)

Excess of Revenues over Expenses (Expenses over Revenues): The accompanying Consolidated Statements of Operations and Changes in Net Assets include the excess of revenues over expenses (expenses over revenues) as the performance indicator. Changes in unrestricted net assets that are excluded from the excess of revenues over expenses (expenses over revenues), consistent with industry practice, include unrealized gains and losses on other-than-trading assets limited as to use and investments to the extent losses are deemed temporary, contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets).

Investments in and Receivables from Affiliates: IHS makes investments in corporations and other forms of businesses. Investments where less than 50% of the voting common stock is owned by IHS as well as certain partnership and limited liability company investments in which IHS does not have the ability to exercise significant influence are accounted for using the equity method. See Note 8. Joint ventures where IHS has greater than 50% ownership or control or more are included in the accompanying consolidated financial statements in which the proportionate share owned by third parties is included within non-controlling interest. All significant intercompany transactions have been eliminated.

Goodwill and Other Intangible Assets: Financial Accounting Standards Board ("FASB") guidance requires business combinations to be accounted for using the acquisition method of accounting and it also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. Goodwill represents the excess of cost of acquisition over the fair value of net assets acquired. Other intangible assets primarily represent the values assigned to subscriber bases, provider and hospital networks, and trademarks. With the adoption of Accounting Standards Update ("ASU") 2019-06 effective January 1, 2019, IHS elected the accounting alternative which allows goodwill and other intangible assets with indefinite lives to be amortized on a straight-line basis over 10 years, or less if management demonstrates that another useful life is more appropriate, and tested for impairment upon the occurrence of a triggering event at the entity level. See Note 9.

Interest Rate Swap Agreements: IHS has entered into interest rate swap agreements to manage the net exposure to interest rate changes related to its borrowings and to manage its overall borrowing costs. For designated cash flow hedges, the change in its fair value is recorded as a change in other unrestricted net assets. For interest rate swaps not designated or qualifying as hedges, changes in fair value are recorded in investment income (loss) and other, net. See Note 11.

Long-term Investments: IHS maintains a strategic portfolio of investments in various funds and other unaffiliated companies. IHS' ownership stake ranges from 0.8% to 12.7% and IHS does not have the ability to exert significant influence over the investees. These investments are measured at fair value with any changes recognized within investment income (loss) and other, net. For the equity investments that do not have a readily determinable fair value using the NAV practical expedient, IHS measures those investments using the measurement alternative. The measurement alternative measures those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Income Taxes: The Foundation, IHCS, and LHC are not-for-profit corporations and have been determined to be exempt from Federal income tax under the provisions of section 501(c)(3) of the Internal Revenue Code. Therefore, these entities will not incur any liability for federal income tax, except for possible unrelated business income. IHI and its subsidiaries are taxable organizations. Deferred income taxes are provided for all significant timing differences between revenues and expenses reported for financial statement and for tax purposes. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements. Accounting principles generally accepted in the United States require management

2. Summary of Significant Accounting Policies (continued)

to evaluate uncertain tax positions taken by IHS. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service. Management has concluded that as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken. IHS has recognized no interest or penalties related to uncertain tax positions. IHS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes that IHS is no longer subject to income tax examinations for years prior to 2016.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that was previously tax deferred and creates new taxes on certain foreign sourced earnings. For tax-exempt entities, the Act also requires organizations to pay an excise tax on remuneration above certain thresholds that is paid to executives by the organization, report income or loss from unrelated business activities on an activity-by-activity basis, and repeals tax-exempt status of advanced refunding bond issuances among other provisions. At December 31, 2019, IHS has made a reasonable estimate of the tax effects of the enactment of the Act. Certain regulatory guidance provides for a measurement period of up to one year during which the accounting for the tax effects of the Act may be completed. IHS may record further adjustments in future periods upon obtaining, preparing, or analyzing additional information about facts and circumstances that existed as of the date of enactment that would have affected the income tax effects initially reported. IHS will continue to revise and refine the calculations as additional IRS guidance is issued.

Leases: Effective January 1, 2019, IHS adopted ASU 2016-02, Leases (Topic 842), using the modified retrospective approach. For the impact of adoption and other required disclosures, see Note 12. IHS enters into lease agreements for equipment, office space and certain facilities in conducting its normal business operations. Operating leases are included in long-term right-of-use assets, current lease liability and long-term lease liability in IHS's accompanying Consolidated Balance Sheets.

Right-of-use assets represent IHS's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. At the inception of any contract, IHS evaluates the agreement to determine whether the contract contains a lease. If the contract contains a lease, IHS then evaluates the term and whether the lease is an operating or finance lease. Most leases include one or more options to renew or may have a termination option. IHS determines whether these options are reasonably certain to be exercised at the inception of the lease. The depreciable life of right-of-use assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option that is reasonably certain to be exercised at the inception of the lease. The lease expense is recognized on a straight-line basis in the accompanying Consolidated Statements of Operations and Changes in Net Assets over the terms of the respective leases. Leases with an initial term of 12 months or less are not recorded on the accompanying Consolidated Balance Sheets.

Topic 842 includes an accounting policy election for non-public business entities to use the risk-free rate for the measurement of lease liabilities. IHS elected to utilize the risk-free rate for the measurement of lease liabilities for initial transition and going forward. This rate will be applied to all leases using a period comparable to the lease.

Non-controlling Interest: The non-controlling interest in a subsidiary is presented within net assets in the IHS's accompanying Consolidated Balance Sheet and Consolidated Statements of Operations and Changes in Net Assets and represents the proportionate share owned by third parties. IHS presents the unrestricted non-controlling interest and the amount of consolidated changes in net assets in the accompanying Consolidated Statements of Operations and Changes in Net Assets. The carrying amount of the non-controlling interest is adjusted based on an allocation of subsidiary earnings based on ownership interest.

2. Summary of Significant Accounting Policies (continued)

Subsequent Events: IHS has evaluated subsequent events that have occurred for recognition and disclosure through March 20, 2020, the date the accompanying consolidated financial statements were available for issuance.

Risk Factors: IHS' ability to maintain and/or increase future revenues or income could be adversely affected by: (i) the pressure to contain costs and assume risks that may result from payors promoting alternative methods for health care delivery or payment of services, such as discounted fee for service networks, valued-based payments, and capitated fee arrangements; (ii) increased competition from other hospital facilities and integrated health care delivery systems in IHS' service areas; (iii) new statutory, legal or regulatory requirements, or structural, operational or payment changes to the health care industry, resulting from changes of the Patient Protection and Affordable Care Act and other similar health care reform measures; (iv) changes in revenue mix, or delays in receiving payments from third party payors, including any payments from the State of Virginia that may result if there were delays in appropriations and state budget deficits; (v) proposed and/or future changes in the laws, rules, regulations and policies relating to the definition, activities, and/or taxation of non-profit tax-exempt entities; (vi) future legislation, regulation or other actions by federal, state and local governments and their agencies which may impose requirements or continue the trend toward more restrictive limitations on reimbursement for health care services; (vii) future legislation or adverse trends affecting the costs related to professional liability coverage; (viii) the future of Virginia's Certificate of Need program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate IHS' ability to expand new services; (ix) changes in general and local economic conditions that could influence patients' ability to pay for services or the adequacy of patients' health insurance coverage; (x) a potential shortage of physicians, qualified nurses and other skilled health care professionals in the local employment market; and (xi) changes in general and local economic conditions that could cause volatility in investments, capital and debt markets and may impose limitations to timely access to debt markets.

IHS is aware of certain additional risks regarding the spread of COVID-19, a strain of coronavirus. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, President Trump declared a national emergency. The federal government and a large number of state governments, including Virginia, have imposed strict measures to curtail certain aspects of public life in an effort to contain the virus as U.S. cases have risen sharply in March 2020.

An outbreak of an infectious disease, including the growth in the magnitude or severity of COVID-19 cases in IHS's service area, could result in an abnormally high demand for health care services, potentially inundating hospitals with patients in need of intensive care services, and the treatment of a highly contagious disease at one of the IHS facilities could also result in a temporary shutdown of facilities or diversion of patients or staffing shortages. Additionally, certain elective procedures may be deferred, resulting in reduced patient volumes and operating revenues. Further, the changing global economic conditions or potential global health concerns such as the COVID-19 may also affect IHS's partners, suppliers, distributors and payors, potentially disrupting or delaying IHS's supply chain and delaying reimbursement by governmental or private payors. It is not possible to predict the costs associated with responding to an infectious disease outbreak by IHS or preparation for such treatment.

In addition to the direct impact to the health care industry, financial markets in the United States and globally have recently seen significant declines attributed to COVID-19 concerns. The continued spread of COVID-19 or any other similar outbreaks in the future may materially adversely impact the IHS's financial condition, liquidity and results of operations, as well as national and local economies.

2. Summary of Significant Accounting Policies (continued)

Although IHS has activated plans to address the COVID-19 threat and is operating pursuant to infectious disease protocols and it's emergency preparedness plan, the potential impact of a pandemic, epidemic or outbreak of an infectious disease with respect to the IHS service area or facilities is difficult to predict and could adversely impact the business, financial condition or results of operations, and, accordingly, may materially adversely impact the financial condition of IHS.

Recent Accounting Pronouncements: Effective January 1, 2019, IHS adopted FASB Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), using the modified retrospective approach and elected an application date equal to the later of (1) the beginning of the earliest comparative period presented in the financial statements and (2) the commencement date of the lease. The modified retrospective approach provides a method of recording existing leases at adoption and in comparative periods that approximates the results of a full retrospective approach. This ASU requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the accompanying Consolidated Balance Sheets. The ASU also requires disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases.

IHS elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, eliminates the requirement to reassess 1) whether any expired or existing contracts that commenced before the effective date are, or contain, leases, 2) the lease classification for any expired or existing leases, and 3) initial direct costs for any existing leases. IHS also elected the practical expedient which allows Inova to treat the lease and non-lease components of a contract as a single component and account for as a lease. This election will only be applied to supply chain and information technology contracts and not for real estate contracts.

The adoption of the ASU resulted in the recording of additional net lease assets and lease liabilities of \$157 million on the accompanying Consolidated Balance Sheets as of January 1, 2018. The standard did not materially impact our accompanying Consolidated Statements of Operations and Changes in Net Assets, Statements of Cash Flows for the year ended December 31, 2018. See Note 12.

Effective January 1, 2019, IHS adopted FASB issued ASU 2018-15, Intangibles – Goodwill and Other, Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Cost Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU aligns the requirements for capitalizing cost incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software. In February 2019, IHS entered into a cloud services agreement which included a subscription package for Oracle Software as a Service (SaaS) Cloud Services for a ten-year fixed noncancelable term with the option to renew for the subsequent five years. As a result of implementation of ASU, IHS recorded \$20.3 million in capitalized implementation costs as part of other long-term assets as of December 31, 2019.

Effective January 1, 2019, IHS adopted FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Refer to Note 2 on assets whose use is limited.

2. Summary of Significant Accounting Policies (continued)

Effective January 1, 2019, IHS adopted FASB ASU 2018-08, *Not-for-Profit Entities – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, using a modified retrospective approach. This ASU provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The adoption of ASU did not have a material impact on the consolidated financial statements.

Effective January 1, 2019, the FASB issued ASU 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities.* This ASU, upon election of the accounting alternative method, provides that goodwill and certain indefinite-lived intangible assets be amortized on a straight-line basis. Additionally, under this ASU, impairment testing is only required upon the occurrence of a triggering event and the company has the option to test for impairment at the entity level. The provisions of ASU 2018-15 are effective for IHS for annual periods beginning after December 15, 2020, and interim periods thereafter. Early adoption is permitted. The ASU was early adopted effective January 1, 2019. The adoption of ASU did not have a material impact on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. This update requires: 1) certain equity investments to be measured at fair value, 2) simplifies the impairment assessment of equity investments, 3) eliminates certain disclosures, 4) requires management to evaluate the need for a valuation allowance on certain deferred tax assets and, 5) requires separate presentation of certain amounts in the financial statements. The ASU was adopted effective January 1, 2019. The adoption of ASU did not have a material impact on the consolidated financial statements.

New Accounting Standards Not Yet Adopted: In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amounts. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2022, including interim periods within those fiscal years, and a modified retrospective approach is required, with a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective. Management is currently evaluating the impact of adopting this new accounting guidance.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities (Subtopic 310-20)*. The amendments to this updated shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Management is currently evaluating the impact that the adoption of ASU 2017-08 will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurements (Topic 820). This ASU improves the effectiveness of the notes to the financial statements through changes in disclosure requirements for fair value measurement. The ASU is effective January 1, 2020 and will be applied using a retrospective approach. IHS is currently assessing the impact of the ASU on the consolidated financial statements.

3. Net Patient Service Revenue

IHS adopted the new standard ASU 2014-09, Revenue from Contracts with Customers (Topic 606), effective January 1, 2018, using the full retrospective method. The most significant change from the adoption of the new standard relates to IHS' estimation for the allowance for doubtful accounts. Under the previous standards, IHS' estimate for amounts not expected to be collected based upon historical experience, were reflected as provision for bad debts and deducted from net patient service revenue to arrive at net patient service revenue less provision for bad debts. Under the new standard, those amounts will continue to be recognized as a reduction to net patient service revenue, however, not reflected separately as provision for bad debts, and accordingly the caption net patient service revenue less provision for bad debts will no longer be presented on the accompanying Consolidated Statements of Operations and Changes in Net Assets. Subsequent changes in the estimate of collectability due to a change in the financial status of a payor, for example a bankruptcy, will be recognized as bad debt expense in operating expenses.

Accordingly, the net patient service revenue is presented for the year ended 2019 and 2018. IHS's revenues generally relate to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period the obligations to provide health care services are satisfied. Performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. Performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationship with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payors. The payment arrangements with thirdparty payors for services provided patients typically specify payments at amounts less than IHS's standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based on predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the contractual estimation process to incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

IHS' net patient service revenues are based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors. Estimates of contractual allowances under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements and are recognized as explicit price concessions. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). Management also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts that it expects to collect.

IHS has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to IHS' expectation that the period between the time the service is provided to a patient and the time that the patient or third-party payor pays for that service will be one year or less. However, IHS does, in certain circumstances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

3. Net Patient Service Revenue (continued)

| | 2019 | | 2018 | | | |
|------------------------------------|-----------------|--------|------|-----------|--------|--|
| Medicare | \$ 648,110 | 17.2% | \$ | 625,279 | 18.4% | |
| Medicaid | 234,073 | 6.2% | | 135,108 | 4.0% | |
| Commercial and other | 2,742,596 | 72.9% | | 2,489,280 | 73.1% | |
| Net Patient Service Revenue | 3,624,779 | 96.3% | , | 3,249,667 | 95.5% | |
| Other operating revenue | 139,094 | 3.7% | | 153,168 | 4.5% | |
| Total Operating Revenue | \$ 3,763,873 | 100.0% | \$ | 3,402,835 | 100.0% | |

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and IHS' historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transactions price were not significant in 2019 and 2018.

The collection of outstanding receivables for Medicare, Medicaid, other third-party payors and patients is IHS' primary source of cash and is critical to its operating performance. IHS' practice is to assign a patient to the primary payor and not reflect other uninsured balances as self-pay. Therefore, the payors listed above contain patient responsibility components such as deductibles and copayments. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of IHS' revenues and patient accounts receivable (the "hindsight analysis") as a primary source of information in estimating the collectability of patient accounts receivable. Management performs a hindsight analysis monthly, utilizing rolling twelve-month patient accounts receivable collection and write-off data. Management believes monthly updates to the estimated implicit price concession amounts at each of IHS' healthcare facilities provide reasonable estimates of its revenues and valuations of its patient accounts receivable. These routine, monthly changes in estimates have not resulted in material adjustments to the valuations of patient accounts receivable or period-to-period comparisons of the results of operations. For the years ended December 31, 2019 and 2018, estimated implicit price concessions of \$178.8 million and \$182.3 million, respectively, had been recorded as reductions to IHS' revenues and patient accounts receivable balances to enable management to record IHS' revenues and patient accounts receivable at the estimated amounts that they expect to collect.

4. Charity Care and Other Community Benefits

IHS provides healthcare services to patients who meet certain criteria under its charity care policy without charge (or at amounts less than the established rates). Since IHS does not pursue collection of amounts that qualify as charity care, such amounts are not reported as net patient service revenue. The amounts reported as charity care represent the cost of rendering such services typically based on the cost to charge ratio for each facility. Various government programs provide for the indigent, including Medicaid recipients. These programs provide a percentage of reimbursement for qualifying patients; however, payment is typically below the cost of those services.

In addition to charity and uncompensated care, IHS provides benefits to the broader community. These services include free health screenings, educational services, prevention services, and support programs. In addition, IHS incurs significant unreimbursed costs in providing medical education and performing medical research. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care.

IHS' estimated costs of providing services to the poor and broader community for the years ended December 31, 2019 and 2018 are as follows (in thousands):

| | 2019 | 2018 | | |
|--|---------------|------|---------|--|
| Charity care | \$ 108,307 | \$ | 129,984 | |
| Unpaid cost of state programs to financially | | | | |
| disadvantaged persons | 221,073 | | 144,908 | |
| Community health programs | 28,646 | | 24,776 | |
| Medical education and research | 30,254 | | 23,777 | |
| Total community benefits, at cost | \$ 388,280 | \$ | 323,445 | |

5. Property, Equipment and Leasehold Interests

The components of property, equipment and leasehold interests, including capital lease assets, at cost, and the related accumulated depreciation were as follows at December 31, 2019 and 2018 (in thousands):

| | 2019 | 2018 |
|---|-----------------|-----------------|
| Land and land improvements | \$ 222,087 | \$ 222,032 |
| Buildings, fixed equipment and leasehold improvements | 3,009,507 | 2,703,086 |
| Major movable equipment | 1,730,598 | 1,635,487 |
| | 4,962,192 | 4,560,605 |
| Less: Accumulated depreciation and amortization | (2,854,075) | (2,671,251) |
| | 2,108,117 | 1,889,354 |
| Construction-in-progress | 387,503 | 490,559 |
| Total | \$ 2,495,620 | \$ 2,379,913 |
| | | |

6. Investments

IHS' investments as of December 31, 2019 and 2018 are as follows (in thousands):

| | 2019 | | | |
|---------------------------|-----------------|----|-----------|--|
| Cash and cash equivalents | \$ 256,022 | \$ | 523,096 | |
| Equity securities | 754,097 | | 833,740 | |
| Debt securities | 1,099,717 | | 828,039 | |
| Alternative investments | 3,658,106 | | 2,736,529 | |
| Total | \$ 5,767,942 | \$ | 4,921,404 | |

Income from alternative investments is recorded in investment income and other, net on the accompanying Consolidated Statements of Operations and Changes in Net Assets. IHS invests in an array of alternative investments, primarily public, hedge, fund of funds and real asset funds, distressed debt and private equity. A substantial portion of the underlying securities held by these funds are in actively traded marketable securities. The hedge funds may invest in multiple strategies, including long and short equity, other non-directional, distressed securities, and various forms of arbitrage. The real asset funds invest primarily in commercial and residential real estate as well as the securities of natural resource companies. The distressed debt funds invest in loans of companies whose credit rating is considered below investment grade. The private equity funds invest primarily in domestic companies. For public equity and bond funds and hedge funds, the redemption frequency ranges from daily to every three years with redemption notice periods from 1 to 150 days. For real assets, distressed debt and private equity, IHS' liquidity is at the fund managers' discretion and may apply to all or portions of a particular invested amount. Total unfunded commitments to alternative investment funds are \$699.1 million and \$399.0 million as of December 31, 2019 and 2018, respectively.

Investments are carried at estimated fair value, unless recorded on the equity method of accounting using the net asset value ("NAV") practical expedient. Realized gains and losses from sales of investments are reflected in income for the period in which they occur. The average cost of the investment sold is used to determine the realized gain or loss. Interest and dividend income is reported net of investment-related expenses.

7. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants at the measurement date. ASC Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy distinguishes between market participant assumptions based on independent sources (observable inputs classified within Levels 1 and 2) and the reporting entity's own notions about market participant assumptions (unobservable inputs classified within Level 3). Transfers into and out of all levels of the fair value hierarchy are reflected at end-of-period fair value. The fair value levels are as follows:

- Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that IHS has the ability to access at the measurement date.
- Level 2 inputs are other observable inputs for the assets or liabilities, either directly or indirectly. These may include quoted prices for similar assets and liabilities in active markets, interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

7. Fair Value Measurements (continued)

• Level 3 inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Fair value level assignment for assets and liabilities is based on the lowest level input that is significant to the fair value measurement in its entirety. IHS' assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets and liabilities.

Alternative investments represent funds included on the balance sheet that are reported using the net asset value ("NAV") practical expedient as prescribed by ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*. These amounts are not required to be categorized in the fair value hierarchy. The fair value of these investments is based on the net asset value information provided by the general partner. Fair value is based on the proportionate share of the NAV based on the most recent partner's capital statements received from the general partners. This valuation methodology is consistent with the equity method.

The following tables present IHS' assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018, respectively. Certain assets such as open purchases and sales do not have fair values classified within a level in the valuation hierarchy. Alternative investments are excluded from fair value tables below (in thousands).

| | De | cember 31, | | | | | | |
|---|----|------------|----|-----------|----|-----------|----|--------|
| | | 2019 | | Level 1 | | Level 2 | Le | evel 3 |
| Assets: | | | | | | | | |
| Cash and cash equivalents | \$ | 256,022 | \$ | 248,043 | \$ | 7,979 | \$ | _ |
| U.S. government and agency | | | | | | | | |
| securities | | 615,631 | | _ | | 615,631 | | _ |
| Corporate and other bonds | | | | | | | | |
| Asset-backed securities | | 235,548 | | _ | | 235,548 | | _ |
| Corporate and other bonds | | 220,257 | | _ | | 220,257 | | _ |
| Other government securities | | 28,281 | | _ | | 28,281 | | _ |
| Equity securities | | | | | | | | |
| - Domestic | | 90,925 | | 90,925 | | _ | | _ |
| International | | 230,892 | | 230,892 | | _ | | _ |
| Mutual fund / ETF | | | | | | | | |
| – Equity | | 373,303 | | 373,303 | | _ | | _ |
| Fixed income and other | | 58,977 | | 58,977 | | _ | | _ |
| Total assets | \$ | 2,109,836 | \$ | 1,002,140 | \$ | 1,107,696 | \$ | _ |
| Liabilities: | | | | | | | | |
| Interest rate swap liability | \$ | (2,977) | \$ | | \$ | (2,977) | \$ | |
| Total liabilities | \$ | (2,977) | \$ | _ | \$ | (2,977) | \$ | _ |

7. Fair Value Measurements (continued)

| | De | cember 31, | | | | | | | | |
|---|----|--------------|----|-----------|-----------------|---------|----------------------|---|---------|--|
| | | 2018 Level 1 | | | Level 1 Level 2 | | 2018 Level 1 Level 2 | | Level 3 | |
| Assets: | | _ | | _ | \ <u></u> | | | | | |
| Cash and cash equivalents | \$ | 523,096 | \$ | 498,477 | \$ | 24,619 | \$ | _ | | |
| U.S. government and agency | | | | | | | | | | |
| securities | | 322,714 | | _ | | 322,714 | | _ | | |
| Corporate and other bonds | | | | | | | | | | |
| Asset-backed securities | | 208,601 | | _ | | 208,601 | | _ | | |
| Corporate and other bonds | | 256,869 | | _ | | 256,869 | | _ | | |
| Other government securities | | 39,855 | | _ | | 39,855 | | _ | | |
| Equity securities | | | | | | | | | | |
| – Domestic | | 259,700 | | 259,700 | | _ | | _ | | |
| International | | 223,066 | | 216,418 | | 6,648 | | _ | | |
| Mutual fund / ETF | | | | | | | | | | |
| – Equity | | 310,815 | | 310,815 | | _ | | _ | | |
| Fixed income and other | | 40,159 | | 40,159 | | _ | | _ | | |
| Subtotal | | 2,184,875 | | 1,325,569 | | 859,306 | | _ | | |
| Interest rate swap asset | | 6,522 | | _ | | 6,522 | | _ | | |
| Total assets | \$ | 2,191,397 | \$ | 1,325,569 | \$ | 865,828 | \$ | | | |

The fair value of IHS' securities is determined by management using third-party service providers utilizing various methods dependent upon the specific type of investment. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Where significant inputs, including benchmark yields, broker-dealer quotes, issuer spreads, bids, offers, the LIBOR curve and measures of volatility, are used by these third-party dealers or independent pricing services to determine fair values, the securities are classified within Level 2.

Assets utilizing Level 1 inputs include: cash and cash equivalents, exchange-traded equity securities, equity and fixed income mutual funds and exchange-traded funds.

Assets and liabilities utilizing Level 2 inputs include: U.S. government and agency securities, corporate, and municipal bonds, certain mortgage-backed securities, asset-backed securities, and foreign government issued securities. IHS entered into interest rate swap agreements in conjunction with the issuance of variable rate bonds. The swap contracts are valued using models based on readily observable market parameters for all substantial terms of the contract. See Note 12 for additional information.

8. Investments in and Receivables from Affiliates

IHS makes strategic investments in corporations and other forms of businesses. IHS accounts for investments with less than 50% ownership under the equity method of accounting and includes IHS' net equity interest in investments in and receivables from affiliates in the accompanying Consolidated Balance Sheets.

IHS invested in a joint venture with Aetna that established Innovation Health ("IHealth"), a licensed health plan serving Northern Virginia. IHealth commenced operations in July 2013. IHealth provides employers and consumers access to more affordable, coordinated and integrated health care in the region. IHS holds a 50% interest in IHealth.

IHS' ownership in significant nonconsolidated entities and the amounts included in IHS' consolidated financial statements as of December 31, 2019 and 2018 are as follows (in thousands):

| Carrying Value | | | | _Equ | ity Method | Incom | e (Losses) |
|----------------|--------|-----------------------------|--------------------------------|--------------------------------------|--|--|--|
| 2019 | | 2018 | | 2019 | | | 2018 |
| \$ | 53,427 | \$ | 46,318 | \$ | 7,108 | \$ | 9,276 |
| | | | | | | | |
| | 17,009 | | 16,735 | | (10,814) | | (7,955) |
| \$ | 70,436 | \$ | 63,053 | \$ | (3,706) | \$ | 1,321 |
| | \$ | 2019 \$ 53,427 17,009 | 2019 \$ 53,427 \$ 17,009 | \$ 53,427 \$ 46,318 17,009 16,735 | 2019 2018 \$ 53,427 \$ 46,318 \$ 17,009 16,735 | 2019 2018 2019 \$ 53,427 \$ 46,318 \$ 7,108 17,009 16,735 (10,814) | 2019 2018 2019 \$ 53,427 \$ 46,318 \$ 7,108 17,009 16,735 (10,814) |

The summarized financial positions and results of operations for investments in affiliates accounted for under the equity method as of and for the years ended December 31, 2019 and 2018 are as follows (in thousands) (unaudited):

| | 2019 | 2018 |
|---|---------------|---------------|
| Total assets | \$ 228,855 | \$ 210,173 |
| Total liabilities | 70,701 | 73,301 |
| Net assets | 158,154 | 136,873 |
| Total revenues, net | 394,324 | 393,038 |
| Excess of (expenses over revenue) revenue over expenses | | |
| (excluding minority interest) | (2,419) | 6,615 |

9. Goodwill and Other Intangible Assets

A summary of goodwill and other intangible assets at December 31, 2019 and 2018 is as follows (in thousands):

| | | 2018 | | |
|--------------------------------|----|---------|----|---------|
| Intangible assets | \$ | 8,866 | \$ | 8,827 |
| Accumulated amortization | | (4,980) | | (3,897) |
| Total intangibles, net | | 3,886 | | 4,930 |
| Goodwill | | 37,303 | | 37,303 |
| Accumulated amortization | | (3,810) | | |
| Total goodwill, net | | 33,493 | | 37,303 |
| Total goodwill and intangibles | \$ | 37,379 | \$ | 42,233 |

Amortization expense of goodwill and intangible assets was \$4.8 million and \$1.3 million, for the years ended December 31, 2019 and 2018, respectively.

As a result of the ASU 2019-06, effective January 1, 2019, management, instead of testing goodwill for impairment on an annual basis, will amortize goodwill on a straight-line basis, test for impairment upon a triggering event, and have the option to elect to test for impairment at the entity level.

Upon the occurrence of a triggering event, management assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. If management determines that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, management will determine the fair value of the reporting unit and compare the fair value of the reporting unit with its carrying amount. Goodwill impairment is recognized if the carrying amount of the reporting unit exceeds its fair value and the loss recorded shall not exceed the reporting unit's carrying amount of goodwill. There were no impairment losses recognized in 2019 and 2018.

10. Long-Term Debt

Long-term debt issues consisted of the following as of December 31, 2019 and 2018 (in thousands):

| | | 2019 | 2018 |
|--|----|-----------|-----------------|
| Long-term Debt of the IHS Obligated Group | | | |
| 1993A Hospital Revenue Refunding Bonds; maturing 8/15/23; semi-annual interest at a fixed rate of 2.75% to 5.25% | | 31,550 | 38,505 |
| 2005A Health Care Revenue Bonds; maturing 5/15/35; monthly interest at a variable rate and maximum of 12.0% | | 109,730 | 109,730 |
| 2010A-2 Health Care Revenue Bonds; maturing 5/15/39; monthly interest at a variable rate and maximum of 12.0% | | 95,000 | 95,000 |
| 2012A Health Care Revenue Bonds; maturing 5/15/42; semi-annual interest at a fixed rate | | | |
| of 2.25% to 5.0% | | 261,925 | 265,325 |
| 2012A Health Care Revenue Bonds; maturing 5/15/42; semi-annual interest at a fixed rate | | | |
| of 3.0% to 5.0% | | 60,000 | 60,000 |
| 2012D Health Care Revenue Bonds; maturing 5/15/29; semi-annual interest at a fixed rate | | | |
| of 3.0% to 5.0% | | 70,395 | 70,395 |
| 2013 Health Care Revenue Bonds; maturing 12/1/23; monthly interest at a fixed rate of 2.15% | | 53,930 | 66,510 |
| 2014A Health Care Revenue Bonds; maturing 5/15/44; semi-annual interest at a fixed rate | | | |
| of 2.5% to 5.0% | | 200,000 | 200,000 |
| 2016A Health Care Revenue Bonds; maturing 5/15/31; semi-annual interest at a fixed rate | | | |
| of 5.0% | | 111,880 | 111,880 |
| 2016B Health Care Revenue Bonds; maturing 5/15/26; semi-annual interest at a fixed rate | | | |
| of 5.0% | | 31,295 | 31,295 |
| 2016C Health Care Revenue Bonds; maturing 5/15/42; monthly interest at a variable rate | | | |
| and maximum of 12% | | 98,565 | 98,955 |
| 2018A Health Care Revenue Bonds; maturing 5/15/2048; semi-annual interest at a fixed rate | | | |
| of 3.0% to 5.0% | | 200,040 | 206,860 |
| 2018B Health Care Revenue Bonds; maturing 5/15/2057; semi-annual interest at a fixed rate | | | |
| of 5.0% | | 150,000 | 150,000 |
| 2018C Health Care Revenue Bonds; maturing 5/15/2033; monthly interest at a variable rate and maximum of 12.0% | | 100,000 | 100,000 |
| Total Long-term Debt of the IHS Obligated Group | • | 1,574,310 | 1,604,455 |
| Less: Current Portion of Long-term Debt | | (227,905) | (227,210) |
| Net Original Issue Premium | | 80,990 | 88,230 |
| Net Deferred Financing Costs | | (8,150) | (8,698) |
| Net Long-term Debt of the IHS Obligated Group | \$ | 1,419,245 | \$ 1,456,777 |
| Total Long-term Debt of Non-Obligated IHS Affiliates | \$ | 3,791 | \$ 7,502 |
| Less: Current Portion of Long-term Debt | | (956) | (1,219) |
| Net Long-term Debt of Non-Obligated IHS Affiliates | \$ | 2,835 | \$ 6,283 |

The long-term debt of non-obligated IHS affiliates represents a construction loan of \$3.6 million and line of credit of \$0.2 million. The construction loan has a maturity date of July 15, 2024 and a fixed interest rate of 2.75%. The line of credit has a maturity date of January 8, 2022 and a variable interest rate, which was 4.25% as of December 31, 2019.

10. Long-Term Debt (continued)

The preponderance of IHS' debt is tax-exempt revenue bonds issued under a Master Trust Indenture, which defines the obligated subsidiaries and affiliates under the bonds. The Members of the IHS Obligated Group consist of the Foundation, IHCS and LHC. The financial statements presented for the Obligated Group include only their accounts, which includes their investment interest in controlled, affiliated entities, but does not include in the revenues, expenses, assets or liabilities of the Obligated Group the revenues, expenses, assets or liabilities of any of those controlled, affiliated entities.

On July 31, 2018, the Industrial Development Authority issued \$206.9 million of Series 2018A bonds for the benefit of the Obligated Group. The 2018A bonds are comprised of fixed rate term and coupon bonds with principal payments starting in the year 2019. Interest is payable semiannually on May 15 and November 15 of each year, commencing on November 15, 2018. The premium received was \$12.1 million. The total proceeds from the offering were \$219.0 million.

On July 31, 2018, the Industrial Development Authority issued \$150.0 million of Series 2018B bonds for the benefit of the Obligated Group. The 2018B bonds are comprised of coupon bonds with principal payments starting in May 2033. Interest is payable semiannually on May 15 and Nov 15 of each year, commencing November 15, 2018. The premium received was \$16.0 million. The total proceeds from the offering were \$166.0 million.

On July 31, 2018, the Industrial Development Authority issued \$100.0 million of Series 2018C bonds for the benefit of the Obligated Group. The 2018C bonds are comprised of self-liquidity variable rate demand bonds. Interest is payable on the first day of each month, commencing on September 1, 2018.

Approximately \$264.9 million of the proceeds of the 2018A, B, and C bonds will be used to finance various capital projects, and the remaining proceeds refunded all or a portion of Series 2017, Series 2005C and Series 2000A bonds.

IHS Obligated Group debts are secured by an interest in all funds held by the Bond Trustee for purposes of debt service, construction and equipment acquisition. Each Member of the IHS Obligated Group covenants that it will not pledge or grant a security interest in (except as may be otherwise provided in the Master Trust Indenture) any of its property. The Master Trust Indenture for the IHS Obligated Group requires that certain minimum financial ratios be met. IHS is in compliance with the financial ratio requirements.

The interest rate on the variable rate bonds ranged between 1.05% and 2.50% in 2019 and 0.80% and 2.36% in 2018. The variable rate bonds include an optional tender feature that allows the bond holder to tender the bonds on a weekly interest payment date.

The tender feature of the 2016C and 2018C Bonds and certain variable rate bonds requires IHS to maintain current assets of \$199.0 million as of December 31, 2019 and 2018, respectively, to provide for redemption of the tendered bonds. These assets are included in the current portion of assets whose use is limited.

Costs incurred in the issuance or conversion of long-term debt are deferred and amortized over the life of the related debt using the principal balance outstanding method.

10. Long-Term Debt (continued)

Certain bonds are subject to mandatory sinking fund redemption and to earlier redemption under certain circumstances as defined in the respective bond indenture agreements. Maturities of long-term debt for the five years succeeding December 31, 2019 are as follows (in thousands):

| | 2020 | 2021 | 2022 | 2023 | 2024 | Т | hereafter | Total |
|-----------------------------------|---------------|--------------|--------------|--------------|--------------|----|-----------|-----------------|
| Scheduled maturities | \$ 30,296 | \$ 32,758 | \$ 93,969 | \$ 35,112 | \$ 17,971 | \$ | 1,169,430 | \$ 1,379,536 |
| Bonds under remarketing agreement | | | | | | | | |
| and subject to mandatory tender | 198,565 | _ | _ | _ | _ | | _ | 198,565 |
| Total | \$ 228,861 | \$ 32,758 | \$ 93,969 | \$ 35,112 | \$ 17,971 | \$ | 1,169,430 | \$ 1,578,101 |

IHS issued \$100.0 million of taxable commercial paper ("CP") under a program authorized for borrowings up to \$100.0 million with maturity dates from one to 270 days. Proceeds from this issuance were used for a variety of working capital requirements. IHS maintains a self-liquidity program that would be used to repurchase any CP that is not remarketed. All outstanding CP is included in notes payable and other liabilities in the current liabilities section of the accompanying Consolidated Balance Sheets. As of December 31, 2019 and 2018, the amount of CP outstanding was \$100.0 million.

Total interest paid was \$72.1 million and \$62.3 million for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, IHS maintains unsecured lines of credit with three large commercial banks with a combined available principal amount of \$237.5 million, including a \$100 million line of credit that is scheduled to expire on June 30, 2020, which management intends to renew. There were no amounts outstanding on these credit lines as of December 31, 2019 or 2018, respectively; however, IHS drew down the entire outstanding amount as of March 20, 2020.

11. Derivative Financial Instruments

IHS entered into interest rate swap agreements in order to hedge the variability of cash flows related to changes in market interest rates on underlying variable rate debt. Below is a summary of the interest rate swap agreements as of December 31, 2019 and 2018, respectively (in thousands):

| | Notiona | | | | | | Fair | Collateral | Colla | |
|--------------------------------------|---------|---------------|----------------|-------------|----------------------------|----|---------|------------|-------|-----|
| Counter Party | Amoun | Date | Type | Payer Rate | Receiver Rate | | Value | Threshold | Pos | ted |
| As of December 31, 2019 | | | | | | | | | | |
| Merrill Lynch Capital Services, Inc. | \$ 50, | 000 5/15/2034 | Fixed Payer | 1.65% | 67% of one-month USD LIBOR | \$ | (6) | \$ 30,000 | \$ | _ |
| Citibank, N.A. | 100, | 000 1/15/2034 | Variable Payer | 67% of USD- | 67% of the USD-ISDA-Swap | | | | | |
| | | | | LIBOR-BBA | Rate minus 0.387% | | (1,212) | 45,000 | | _ |
| JPMorgan Chase Bank, N.A. | 69, | 495 5/15/2034 | Fixed Payer | 1.45% | 67% of one-month USD LIBOR | | (1,759) | 25,000 | | _ |
| Total | \$ 219, | 495 | | | | \$ | (2,977) | \$ 100,000 | \$ | |
| | | | | | | | | | | |
| As of December 31, 2018 | | | | | | | | | | |
| Merrill Lynch Capital Services, Inc. | \$ 50, | 000 5/15/2034 | Fixed Payer | 1.65% | 67% of one-month USD LIBOR | \$ | 3,186 | \$ 30,000 | \$ | _ |
| JPMorgan Chase Bank, N.A. | 69, | 495 5/15/2034 | Fixed Payer | 1.45% | 67% of one-month USD LIBOR | | 3,336 | 25,000 | | _ |
| Total | \$ 119, | 495 | - | | | \$ | 6,522 | \$ 55,000 | \$ | |

12. Leases

IHS' leases equipment, office space and certain facilities. Included in the other operating expenses of the accompanying Consolidated Statements of Operations and Changes in Net Assets are lease expenses of approximately \$50.0 million and \$51.2 million in 2019 and 2018, respectively. This lease expense was offset by \$1.3 million in sublease income in both 2019 and 2018, which was included in investment income (loss) and other, net of the accompanying Consolidated Statements of Operations and Changes in Net Assets. The following table summarizes the components of our lease expense for the years ended December 31, 2019 and 2018 (in thousands):

| | 2019 | 2018 |
|--|--------------|--------------|
| Finance lease cost | | |
| Amortization | \$ 903 | \$ 754 |
| Interest | 105 | 90 |
| Total finance lease cost | 1,008 | 844 |
| Operating lease cost | 38,236 | 40,362 |
| Short-term lease cost | 6,442 | 5,368 |
| Variable lease cost | 4,331 | 4,678 |
| Total lease cost before sublease income | 50,017 | 51,252 |
| Less: Sublease income | (1,324) | (1,311) |
| Total lease cost, net of sublease income | \$ 48,693 | \$ 49,941 |

IHS recognized \$116.6 million and \$131.6 million in right of use assets on the accompanying Consolidated Balance Sheets as of December 31, 2019 and December 31, 2018, respectively, all of which were associated operating leases and classified as noncurrent. The following table summarizes the components of operating and finance lease liabilities classified as current and noncurrent on the accompanying Consolidated Balance Sheets as of December 31, 2019 and 2018 (in thousands):

| | Operating | | Fi | inance | | |
|-------------------------|-----------|---------|----|----------|----|---------|
| | | Leases | I | Leases | | Total |
| December 31, 2019 | | _ | | <u> </u> | | _ |
| Current | \$ | 28,845 | \$ | 862 | \$ | 29,707 |
| Long-term | | 100,271 | | 1,032 | | 101,303 |
| Total lease liabilities | \$ | 129,116 | \$ | 1,894 | \$ | 131,010 |
| | | | | _ | • | |
| December 31, 2018 | | | | | | |
| Current | \$ | 32,993 | \$ | 1,569 | \$ | 34,562 |
| Long-term | | 110,114 | | 2,231 | | 112,345 |
| Total lease liabilities | \$ | 143,107 | \$ | 3,800 | \$ | 146,907 |

12. Leases (continued)

The following table summarizes cash flows from operating and finance leases for the years ended December 31, 2019 and 2018 (in thousands):

| | 2019 | | 2018 | |
|--|----------|--------|--------------|--|
| Cash paid for amounts included in the measurement of lease liabilities | <u> </u> | _ | _ | |
| Operating cash flows paid for operating leases | \$ | 37,618 | \$ 39,179 | |
| Operating cash flows paid for interest portion of finance leases | \$ | 97 | \$ 115 | |
| Financing cash flows paid for principal portion of finance leases | \$ | 2,085 | \$ 1,833 | |
| Right-of-use assets obtained in exchange for lease obligations | | | | |
| Operating leases | \$ | 16,755 | \$ 7,769 | |
| Finance leases | \$ | 284 | \$ 2,474 | |

The weighted-average discount rates and our weighted remaining lease terms as of December 31, 2019 and 2018 (in thousands):

| | 2019 | 2018 |
|---------------------------------|-------|-------|
| Weighted-average discount rate: | | |
| Operating leases | 2.48% | 2.48% |
| Finance leases | 3.41% | 3.46% |
| Weighted-average lease term: | | |
| Operating leases | 5.37 | 5.81 |
| Finance leases | 2.40 | 2.44 |

The following table summarizes the maturity of operating and finance lease liabilities as of December 31, 2019 (in thousands):

| | Operating | | | nance |
|-------------------------|-----------|---------|----|-------|
| | | Leases | L | eases |
| 2020 | \$ | 31,659 | \$ | 911 |
| 2021 | | 26,234 | | 639 |
| 2022 | | 22,925 | | 349 |
| 2023 | | 20,839 | | 72 |
| 2024 | | 14,311 | | _ |
| Thereafter | | 22,181 | | |
| Total lease payments | | 138,149 | | 1,971 |
| Less: Imputed interest | | (9,033) | | (77) |
| Total lease liabilities | \$ | 129,116 | \$ | 1,894 |

13. Financing Obligation

On February 5, 2015, IHS entered into a 99-year lease agreement for rights to 117 acres of land and 1.2 million square feet of office space. This large corporate campus is adjacent to its flagship hospital in Fairfax, Virginia. Inova took possession of the site on October 1, 2015. The lease agreement provides the lessor with a put option to sell the property to IHS upon 90 days written notice for \$180.0 million at any time during the first 5 years of the lease. Starting in year 6, the lease payments decline by 50% assuming IHS makes certain capital investments on the site and the lessor becomes responsible for the property taxes. IHS believes that the lessor will exercise the put option on or before October 1, 2020 and, therefore, classified the financing obligation as a current liability on the accompanying Consolidated Balance Sheets as of December 31, 2019. This transaction was accounted for as a noncurrent liability on the accompanying Consolidated Balance Sheets as of December 31, 2018. The financing obligation was \$183.1 million and \$184.5 million as of December 31, 2019 and 2018, respectively.

Future minimum payments under this agreement, excluding the put option, with the remaining terms of one year or more consisted of the following at December 31, 2019 (in thousands):

| |] | Financing |
|----------------------|----|------------|
| | | Obligation |
| 2020 | \$ | 8,750 |
| 2021 | | 5,000 |
| 2022 | | 5,000 |
| 2023 | | 5,000 |
| 2024 | | 5,000 |
| Thereafter | | 1,234,533 |
| Total lease payments | \$ | 1,263,283 |

On March 6, 2020, Inova received notice from the lessor to exercise the put option. The purchase and sale of this property is expected to close on April 30, 2020. The purchase price at closing will be approximately \$184.2 million and is expected to be paid from funds on hand. Future minimum payments above would cease to exist subsequent to exercise.

14. Professional and Other Insurance Liabilities

IHS maintains coverage for professional and general liability through claims-made policies issued by InovaCap, LLC ("InovaCap"). InovaCap is a wholly owned captive insurance company domiciled in Vermont. Because InovaCap is a wholly owned subsidiary of IHS, its assets, liabilities, revenues and expenses are fully consolidated in the accompanying financial statements.

InovaCap retains risk of \$2.4 million per claim and \$19 million in annual aggregate for professional liability. Additional risk is reinsured in umbrella forms through Lloyds of London, other European companies, Zurich North American, and CNA, together providing limits of \$50 million per claim, and \$50 million in the aggregate, in excess of the InovaCap retention. The accompanying Consolidated Balance Sheets at December 31, 2019 and 2018 include in other noncurrent obligations \$25.2 million and \$26.7 million, respectively, based on actuarial estimates of payments to be made under its professional liability insurance programs for known claims, as well as for estimated losses on unfiled claims, which relate to events occurring in 2019 and prior years. The liabilities are discounted at 1.95% and 2.50% at December 31, 2019 and 2018, respectively.

14. Professional and Other Insurance Liabilities (continued)

Investments and other assets held by InovaCap of \$92.8 million and \$80.4 million at December 31, 2019 and 2018, respectively, are restricted by statute from being transferred to another subsidiary or obligated for any other purpose and accordingly are included as assets whose use is limited in the accompanying Consolidated Balance Sheets.

15. Fairfax County Leases

The land upon which the majority of Inova Fairfax Hospital and the entirety of Inova Mount Vernon Hospital are located and the related buildings are leased to IHS by the Board of Supervisors of Fairfax County, Virginia ("County"), under an agreement that was partially amended in 2010 (the "County Lease"). The 2010 agreement included sale of property whereby a portion of the Inova Fairfax Hospital campus land was taken out of the County Lease and ownership of that land was conveyed to IHS. There is also land owned by IHS, off-site of the hospital campus that was conveyed to Fairfax County. Effective as of December 3, 2010, the 2010 agreement extends the County Lease for the residual land for a term of 99 years and, thus, the County Lease now expires in December 2019. Under the County Lease, the property and equipment leased from the County are recorded as leasehold interests at the cost to construct or acquire. Upon termination of the County Lease, such property, including leasehold improvements and equipment will revert to the County, subject to all related long-term liabilities of IHS incurred to finance the construction and acquisition of such property, buildings and equipment.

The County Lease also requires IHS to set aside funds in an amount at least equal to the depreciation expense on the related leasehold interests. Such funds may be expended by IHS for major repairs or alterations, construction of or additions to buildings, or the purchase or replacement of equipment. IHS' Board of Trustees has also designated additional funds for the purpose of plant expansion.

The terms of the County Lease outline an indigent care policy to assure all individuals in the County have access to medically necessary care. Patients' payment obligations under the policy are determined using a sliding income scale which is based on the federal poverty guidelines. During the term of the County Lease, IHS has agreed to notify the County of any intent to incur additional debt in excess of \$1.0 million. IHS has also agreed to notify the County of any intent to enter into contractual agreements for the management or operation of Inova Fairfax Hospital or Inova Mount Vernon Hospital by persons other than IHS, or any intent to change hospital rates.

16. Other Commitments and Contingencies

IHS has entered into several contracts for the acquisition of equipment and for the construction of facilities. Future commitments under these contracts at December 31, 2019 and 2018 were approximately \$114.3 million and \$291.9 million, respectively. IHS currently anticipates that these projects will be financed with a combination of bond proceeds, funds generated from earnings and donations. These projects include expansion and renovation of Fairfax, Mt. Vernon, Loudoun, Alexandria and Fair Oaks hospitals and the Inova Center for Personalized Health campus.

IHS is subject to various legal claims and contingencies arising in the ordinary course of its business. While the outcomes of such matters are uncertain, management believes that their ultimate resolution will not have a material adverse effect on IHS' financial position or on the changes in its net assets or cash flows.

17. Functional Expenses

IHS' primary program service is serving the health care needs of the community by establishing, maintaining, and operating hospital facilities, programs, and other services. Natural expenses attributable to more than one functional expense category are allocated across IHS on a variety of bases, where appropriate, including employee salaries, square footage, and operating expenses.

Expenses by functional classification for the years ended December 31, 2019 and 2018 consist of the following (in thousands):

| | Health Care | | Ge | neral and | | |
|---------------------------------|-------------|-----------|------------|----------------|----|-----------|
| | | Services | | Administrative | | Total |
| Year ended December 31, 2019 | | _ | , | _ | | · |
| Salaries and benefits | \$ | 1,596,625 | \$ | 237,841 | \$ | 1,834,466 |
| Other operating expenses | | 1,221,455 | | 185,023 | | 1,406,478 |
| Depreciation and amortization | | 180,528 | | 69,346 | | 249,874 |
| Interest | | 48,941 | | 4,401 | | 53,342 |
| Total Operating Expenses | \$ | 3,047,549 | \$ 496,611 | | \$ | 3,544,160 |
| | | _ | | _ | | |
| Year ended December 31, 2018 | | | | | | |
| Salaries and benefits | \$ | 1,460,278 | \$ | 233,635 | \$ | 1,693,913 |
| Other operating expenses | | 1,076,911 | | 153,856 | | 1,230,767 |
| Medical claims | | 7,234 | | _ | | 7,234 |
| Depreciation and amortization | | 161,470 | | 63,162 | | 224,632 |
| Interest | | 45,608 | | 4,527 | | 50,135 |
| Total Operating Expenses | \$ | 2,751,501 | \$ 455,180 | | \$ | 3,206,681 |

18. Disposal of Business Line

IHS completed the sale of all of the non-monetary assets of its wholly owned subsidiary, INTotal, to United Healthcare Insurance Company ("UnitedHealth") in 2017. The sales price included \$12 million in cash and approximately \$20.4 million of additional estimated consideration payable in the fourth quarter of 2018. This estimated consideration is measured based on the number of members assigned to the UnitedHealth contract after Virginia Medicaid completes its procurement process. During the fourth quarter of 2018, IHS received the final consideration from UnitedHealth in the amount of \$24.8 million resulting in an additional \$4.7 million gain, which is included in the gain on disposal of business line in the accompanying Consolidated Statements of Operations and Changes in Net Assets for the year ended December 31, 2018.

19. Net Assets with Donor Imposed Restrictions

Net assets with donor restrictions are restricted for the following purposes as of 2019 and 2018 (in thousands):

| | 2019 | 2018 | | | |
|--|---------------|------|---------|--|--|
| Subject to expenditure for specified purpose | | | | | |
| Healthcare services and programs | \$ 186,413 | \$ | 167,270 | | |
| Employee education, recognition and support | 8,500 | | 8,179 | | |
| Research | 14,652 | | 10,894 | | |
| Buildings and equipment | 4,683 | | 4,894 | | |
| Total net assets with donor restrictions | \$ 214,248 | \$ | 191,237 | | |

20. Pledges Receivable

Pledges receivable are included in the other current assets and other long-term assets in the accompanying Consolidated Balance Sheets. Amounts due in less than one year, one to five years, and more than five years were as follows as of December 31, 2019 and 2018 (in thousands):

| | 2019 | 2018 | | |
|-------------------------------------|--------------|------|----------|--|
| Less than one year | \$ 8,495 | \$ | 13,577 | |
| One to five years | 49,873 | | 53,100 | |
| More than five years | 19,375 | | 10,400 | |
| Total pledges receivable | 77,743 | | 77,077 | |
| Present value discount | (6,883) | | (6,573) | |
| Allowance for uncollectible pledges | (12,642) | | (12,691) | |
| Net pledges receivable | \$ 58,218 | \$ | 57,813 | |

21. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date comprise the following at December 31, 2019 and 2018 (in thousands):

| | 2019 | 2018 | | |
|--------------------------------------|-----------------|------|-----------|--|
| Cash and cash equivalents | \$ 404,350 | \$ | 333,100 | |
| Patient accounts receivable, net | 363,704 | | 321,920 | |
| Pledges receivable, net | 6,346 | | 10,863 | |
| Other receivables | 22,512 | | 21,092 | |
| Investments with three-day liquidity | 2,732,808 | | 2,277,641 | |
| Total | \$ 3,529,720 | \$ | 2,964,616 | |



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Report of Independent Auditors on Other Supplementary Information

The Board of Trustees Inova Health System

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating details appearing in conjunction with the consolidated financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst + Young LLP

March 20, 2020

Inova Health System Consolidating Balance Sheets December 31, 2019 and 2018 (in thousands)

| | Inova Health Care Services | | Inova Health Care Services Inova Holdings, Inc. | | | ospital Center | Found | ation | System Offices | | Eliminations and Consolidating Entries | | Totals | |
|---|----------------------------|--------------|---|----------|------------|----------------|-------------|------------|----------------|--------------|---|------------|--------------|----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| ASSETS | | | | | | | | | | | | | | (as adjusted)* |
| ASSE 1S Current Assets | | | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 388,106 | \$ 314.356 | \$ 3,893 | \$ 2,666 | \$ 9,143 | \$ 7.931 | \$ 1 | ¢ 1 | \$ 3,207 | \$ 8,146 | \$ - : | r | \$ 404,350 | \$ 333,100 |
| Assets whose use is limited, current | 198,565 | 198,955 | 5,093 | \$ 2,000 | 5 9,143 | \$ 7,931 | 5 1 | 5 1 | \$ 3,207 | \$ 6,140 | 5 – . | D — | 198,565 | 198,955 |
| Patient accounts receivable, net | 317,959 | 283,205 | 2,726 | 3,312 | 43,019 | 35,403 | _ | _ | _ | _ | _ | _ | 363,704 | 321,920 |
| Other current assets | 138,355 | 110,194 | 3,559 | 3,691 | 11,584 | 9,215 | 5,347 | 10,310 | 3,874 | 3,520 | _ | _ | 162,719 | 136,930 |
| Total Current Assets | 1,042,985 | 906,710 | 10,178 | 9,669 | 63,746 | 52,549 | 5,348 | 10,311 | 7,081 | 11,666 | | | 1,129,338 | 990,905 |
| Property, Equipment and Leasehold Interests | | | | | | | | | | | | | | |
| Land and land improvements | 66,998 | 66,943 | _ | _ | 33,053 | 33,053 | 2,275 | 2,275 | 119,761 | 119,761 | _ | _ | 222,087 | 222,032 |
| Buildings, fixed equipment and leasehold | 2,343,724 | 2,121,704 | 9,641 | 10,089 | 257,031 | 253,737 | _ | _ | 399,111 | 317,556 | _ | _ | 3,009,507 | 2,703,086 |
| Major movable equipment | 1,579,671 | 1,491,801 | 2,595 | 2,818 | 139,205 | 132,859 | 425 | 130 | 8,972 | 8,149 | (270) | (270) | 1,730,598 | 1,635,487 |
| 3 1 1 | 3,990,393 | 3,680,448 | 12,236 | 12,907 | 429,289 | 419,649 | 2,700 | 2,405 | 527,844 | 445,466 | (270) | (270) | 4,962,192 | 4,560,605 |
| Less: Accumulated depreciation and amortization | (2,417,620) | (2,276,933) | (7,857) | (7,391) | (257,169) | (238,739) | (123) | (125) | (171,576) | (148,333) | 270 | 270 | (2,854,075) | (2,671,251) |
| • | 1,572,773 | 1,403,515 | 4,379 | 5,516 | 172,120 | 180,910 | 2,577 | 2,280 | 356,268 | 297,133 | | | 2,108,117 | 1,889,354 |
| Construction-in-progress | 140,211 | 277,111 | 836 | 70 | 224,658 | 138,080 | _ | _ | 21,798 | 75,298 | _ | _ | 387,503 | 490,559 |
| Total Property, Equipment and Leasehold | | | | | | | | | | | | | <u> </u> | |
| Interests, net | 1,712,984 | 1,680,626 | 5,215 | 5,586 | 396,778 | 318,990 | 2,577 | 2,280 | 378,066 | 372,431 | = | = | 2,495,620 | 2,379,913 |
| Assets Whose Use Is Limited | | | | | | | | | | | | | | |
| Held by bond trustee | 42,888 | 135,679 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 42,888 | 135,679 |
| By board for plant replacement and expansion | 189,714 | 150,110 | _ | _ | 85,207 | 74,108 | 10,095 | 9,908 | 5,010,915 | 4,165,989 | _ | _ | 5,295,931 | 4,400,115 |
| By board for construction projects | _ | _ | _ | _ | _ | _ | _ | _ | 178,052 | 169,313 | _ | _ | 178,052 | 169,313 |
| By donor | 12,065 | 10,306 | _ | _ | 31,560 | 29,086 | 114,068 | 95,949 | _ | _ | _ | _ | 157,693 | 135,341 |
| For professional liability | 92,826 | 80,422 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 92,826 | 80,422 |
| For health plan liability | | | | | | | | | 552 | 534 | | | 552 | 534 |
| | 337,493 | 376,517 | _ | - | 116,767 | 103,194 | 124,163 | 105,857 | 5,189,519 | 4,335,836 | _ | _ | 5,767,942 | 4,921,404 |
| Less amounts required to meet current obligations | (198,565) | (198,955) | <u> </u> | | | <u> </u> | | | | | | | (198,565) | (198,955) |
| Assets Whose Use Is Limited, noncurrent | 138,928 | 177,562 | _ | _ | 116,767 | 103,194 | 124,163 | 105,857 | 5,189,519 | 4,335,836 | _ | _ | 5,569,377 | 4,722,449 |
| Other Assets | | | | | | | | | | | | | | |
| Investments in and receivables from affiliates | 9,499 | 10,096 | 2,324 | 2,521 | 18 | 18 | _ | _ | 58,595 | 50,418 | _ | _ | 70,436 | 63,053 |
| Goodwill and other intangible assets | 32,018 | 35,880 | 5,763 | 6,855 | _ | = | _ | _ | _ | = | (402) | (502) | 37,379 | 42,233 |
| Long-term right of use asset | 99,033 | 112,435 | 23,058 | 24,520 | 1,970 | 3,284 | _ | _ | 161 | 359 | (7,578) | (8,971) | 116,644 | 131,627 |
| Long-term investments | = | _ | _ | _ | _ | = | _ | _ | 50,479 | 49,766 | = | _ | 50,479 | 49,766 |
| Interest rate swap | _ | 6,522 | _ | _ | _ | _ | _ | | _ | _ | = | _ | _ | 6,522 |
| Other long-term assets | 2,272,824 | 2,192,125 | (49,863) | (41,243) | 302,006 | 316,830 | 42,736 | 37,974 | (2,488,918) | (2,427,269) | 1,216 | 2,085 | 80,001 | 80,502 |
| Total Other Assets | 2,413,374 | 2,357,058 | (18,718) | (7,347) | 303,994 | 320,132 | 42,736 | 37,974 | (2,379,683) | (2,326,726) | (6,764) | (7,388) | 354,939 | 373,703 |
| TOTAL ASSETS | \$ 5,308,271 | \$ 5,121,956 | \$ (3,325) | \$ 7,908 | \$ 881,285 | \$ 794,865 | \$ 174,824 | \$ 156,422 | \$ 3,194,983 | \$ 2,393,207 | \$ (6,764) | \$ (7,388) | \$ 9,549,274 | \$ 8,466,970 |

^{*}Refer to Note 2 regarding the adoption of the new lease accounting standard, including impacts on previously reported results.

Inova Health System Consolidating Balance Sheets (continued) December 31, 2019 and 2018 (in thousands)

Eliminations and Inova Holdings, Inc. **Loudoun Hospital Center System Offices Consolidating Entries Totals Inova Health Care Services Foundation** 2019 2019 2018 2019 2018 2019 2019 2019 2018 2018 2018 2019 2018 2018 (as adjusted)* LIABILITIES AND NET ASSETS **Current Liabilities** Accounts payable and other accrued expenses 343,220 \$ 1,000 \$ 406,078 386,491 \$ 8,823 \$ 7,000 \$ 38,723 \$ 33,872 \$ 555 9,000 19,346 2,466 2,085 446,503 \$ Third-party settlements 31,991 36,503 12,630 10,154 44,621 46,657 Notes payable and other liabilities 108,332 108,676 3,374 3,555 406 412 215 206 112,327 112,849 Financing obligation 183,167 183,167 Current portion of long-term debt 228,429 228,861 228,429 228,861 Current lease liability 5,327 5,127 3,808 49 378 (1,627)1,678 (1,488)34,562 24,141 26,875 29,707 **Total Current Liabilities** 779,816 743,703 17,524 15,682 53,437 48,246 1,215 762 192,216 19,724 978 458 1,045,186 828,575 **Noncurrent Liabilities** Long-term debt, less current portion 1,422,080 1,422,080 1,463,060 1,463,060 Financing obligation 184,461 184,461 1,941 4 172 112,345 Long-term lease liability 85,146 95,148 20,946 22,590 1,143 (6,104)(7,344)101,303 6 Interest rate swap 2,977 2,977 Other non-current obligations 55,236 66,713 449 449 1,924 1,985 57,609 69,146 (1) **Total Noncurrent Liabilities** 1,624,921 21,395 23,039 3,067 172 184,466 (6,104)(7,344)1,583,969 1,829,012 1,565,439 3,926 **Net Assets** Without donor restrictions 2,933,833 2,725,542 (42,244)(30,814)781,973 704,371 10,094 9,908 3,002,595 2,189,017 (1,638)(502)6,684,613 5,597,522 With donor restrictions 13,844 12,869 36,889 32,620 163,515 145,748 214,248 191,237 2,947,677 2,738,411 (42,244) (30,814) 818,862 736,991 173,609 155,656 3,002,595 2,189,017 (1,638) (502) 6,898,861 5,788,759 **Total Net Assets Attributable to IHS** Non-controlling interest 15,339 14,922 5,919 5,702 21,258 20,624 2,753,333 742,693 155,656 3,002,595 **Total Net Assets** 2,963,016 (42,244) (30,814) 824,781 173,609 2,189,017 (1,638) (502) 6,920,119 5,809,383 \$ 3,194,983 TOTAL LIABILITIES AND NET ASSETS \$ 5,308,271 \$ 5,121,957 (3,325)7,907 881.285 794,865 174,824 156,422 \$ 2,393,207 (6,764)

^{*}Refer to Note 2 regarding the adoption of the new lease accounting standard, including impacts on previously reported results.

Inova Health System Consolidating Statements of Operations For the Years Ended December 31, 2019 and 2018 (in thousands)

| | | | | | | | | | Eliminations and | | | | | |
|--|--------------|---------------|----------------------|------------|-------------------------|------------|-----------|-------------|------------------|--------------|-----------------------|----------|---------------|--------------|
| | Inova Health | Care Services | Inova Holdings, Inc. | | Loudoun Hospital Center | | Found | ation | System Offices | | Consolidating Entries | | Totals | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Operating Revenues | | | | | | | | | | | | | | |
| Net patient service revenue | \$ 3,159,162 | \$ 2,841,562 | \$ 55,698 | \$ 57,043 | \$ 410,069 | \$ 351,114 | \$ - | \$ | \$ (2) | \$ - | \$ (148) | \$ (52) | \$ 3,624,779 | \$ 3,249,667 |
| Other operating revenue | 125,376 | 136,093 | 6,000 | 5,289 | 1,446 | 1,250 | | 113 | 9,557 | 11,390 | (3,285) | (967) | 139,094 | 153,168 |
| Total Operating Revenues | 3,284,538 | 2,977,655 | 61,698 | 62,332 | 411,515 | 352,364 | _ | 113 | 9,555 | 11,390 | (3,433) | (1,019) | 3,763,873 | 3,402,835 |
| Operating Expenses | | | | | | | | | | | | | | |
| Salaries and benefits | 1,623,097 | 1,491,232 | 52,818 | 49,029 | 136,697 | 129,638 | 5,364 | 4,354 | 16,490 | 19,660 | _ | _ | 1,834,466 | 1,693,913 |
| Other operating expenses | 1,212,727 | 1,060,905 | 17,213 | 17,233 | 177,182 | 156,059 | 4,645 | 5,226 | (2,546) | (403) | (2,743) | (1,019) | 1,406,478 | 1,238,001 |
| Depreciation and amortization | 201,209 | 183,417 | 2,620 | 2,292 | 24,768 | 22,470 | 186 | 43 | 21,191 | 16,483 | (100) | (73) | 249,874 | 224,632 |
| Interest | 42,193 | 39,546 | 96 | 101 | 3,276 | 2,689 | | | 7,777 | 7,799 | | | 53,342 | 50,135 |
| Total Operating Expenses | 3,079,226 | 2,775,100 | 72,747 | 68,655 | 341,923 | 310,856 | 10,195 | 9,623 | 42,912 | 43,539 | (2,843) | (1,092) | 3,544,160 | 3,206,681 |
| Operating Income (loss) before Gain on | | | | | | | | | | | | | | |
| Disposal of Business Line | 205,312 | 202,555 | (11,049) | (6,323) | 69,592 | 41,508 | (10,195) | (9,510) | (33,357) | (32,149) | (590) | 73 | 219,713 | 196,154 |
| Gain on disposal of Business Line | | | | | | | | | | 4,714 | | | | 4,714 |
| Operating Income (loss) | 205,312 | 202,555 | (11,049) | (6,323) | 69,592 | 41,508 | (10,195) | (9,510) | (33,357) | (27,435) | (590) | 73 | 219,713 | 200,868 |
| Investment income (loss) and other, net | 3,975 | 1,945 | (381) | 97 | 13,125 | (403) | 32,947 | (10,451) | 834,220 | (341,947) | _ | 6,517 | 883,886 | (344,242) |
| Excess of Revenues Over Expenses | | | | | | | | | | | | | | |
| (Expenses over Revenues) | 209,287 | 204,500 | (11,430) | (6,226) | 82,717 | 41,105 | 22,752 | (19,961) | 800,863 | (369,382) | (590) | 6,590 | 1,103,599 | (143,374) |
| Less: Non-controlling interest | (10,681) | (9,479) | _ | _ | (5,235) | (4,362) | _ | _ | _ | _ | _ | _ | (15,916) | (13,841) |
| Excess of Revenues Over Expenses over | | | | | | | | | | | | | | |
| (Expenses over Revenues) Attributable | | | | | | | | | | | | | | |
| to IHS | \$ 198,606 | \$ 195,021 | \$ (11,430) | \$ (6,226) | \$ 77,482 | \$ 36,743 | \$ 22,752 | \$ (19,961) | \$ 800,863 | \$ (369,382) | \$ (590) | \$ 6,590 | \$ 1,087,683 | \$ (157,215) |

SUPPLEMENTAL REPORTS AND SCHEDULES - FEDERAL AND STATE FINANCIAL ASSISTANCE PROGRAMS

Inova Health System Year Ended December 31, 2019 With Report of Independent Auditors

Ernst & Young LLP



Supplemental Reports and Schedules – Federal and State Financial Assistance Programs

Year Ended December 31, 2019

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Report of Independent Auditors

Board of Trustees Inova Health System

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Inova Health System (IHS), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the IHS as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we also have issued our report dated March 20, 2020 on our consideration of the IHS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the IHS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering IHS' internal control over financial reporting and compliance.

Ernst & Young LLP

March 20, 2020



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements

Performed in Accordance with *Government Auditing Standards*

Board of Trustees Inova Health System

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Inova Health System (IHS), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 20, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered IHS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of IHS' internal control. Accordingly, we do not express an opinion on the effectiveness of IHS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether IHS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

March 20, 2020



Ernst & Young LLP Suite 310 1201 Wills Street Baltimore, MD 21231 Tel: +1 410 539 7940 Fax: +1 410 783 3832

Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance

Board of Trustees Inova Health System

Report on Compliance for Each Major Federal Program

We have audited Inova Health System's (IHS') compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of IHS' major federal programs for the year ended December 31, 2019. IHS' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Inova Health System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about IHS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of IHS' compliance.

2005-3493149 5



Basis for Qualified Opinion on CFDA 93.917 HIV Care Formula Grants

As described in the accompanying schedule of findings and questioned costs, IHS did not comply with requirements regarding CFDA 93.917 HIV Care Formula Grants as described in finding number 2019-001 for A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles, E. Eligibility, and J. Program Income. Compliance with such requirements is necessary, in our opinion, for IHS to comply with requirements applicable to that program.

Qualified Opinion on CFDA 93.917 HIV Care Formula Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, IHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.917 HIV Care Formula Grants for the year ended December 31, 2019.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, IHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs that are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2019.

Other Matters

IHS's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. IHS's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of IHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered IHS' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of IHS' internal control over compliance.



A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be, material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-001 related to CFDA 93.917 HIV Care Formula Grants for A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles, E. Eligibility, and J. Program Income, that we consider to be a material weakness.

Inova Health System's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Inova Health System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance

We have audited the financial statements of IHS as of and for the year ended December 31, 2019, and have issued our report thereon dated March 20, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the Uniform Guidance and pass-through entities and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain



additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal and state awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

June 19, 2020

Schedule of Expenditures of Federal and State Awards

Year Ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title | | | Federal Expenditures | Subrecipient Expenditures | |
|---|--------|--------------------------------------|-------------------------|------------------------------|--|
| Federal awards | | | | | |
| Department of Justice, Office of Justice Programs: | | | | | |
| Pass-through Virginia Department of Criminal Justice Services: | | | | | |
| Crime Victim Assistance | 16.575 | 18-B4119VW16 | \$ 169,714 | \$ | |
| Crime Victim Assistance | 16.575 | 20-A4119VP18 | 332,849 | | |
| Total Department of Justice, Office of Justice Programs | | | 502,563 | | |
| Department of Health and Human Services (DHHS), U.S. Health Resources and Services Administration (HRSA): Ryan White Comprehensive AIDS Resources Emergency Act of 1990 Pass-through University of Pittsburgh: | | | | | |
| HIV-Related Training and Technical Assistance | | 5U1OHA29295-04-00 Subaward 0050178 | | | |
| | 93.145 | (131293-8) | 124,559 | _ | |
| HIV-Related Training and Technical Assistance | | 2U1OHA2929505-00 Subaward | , | | |
| 5 | 93.145 | CNVA00050178 (132978-3) | 72,550 | _ | |
| Pass-through Virginia Commonwealth University, then pass-through University of Pittsburgh: HIV-Related Training and Technical Assistance | | 0056096 (131886-4) Subaward | | | |
| Tirv-Related Training and Technical Assistance | 93.145 | FP00009824_SA001 | 2,322 | _ | |
| Pass-through Rutgers, The State of New Jersey, then pass-through University of Pittsburgh: HIV-Related Training and Technical Assistance | | 5U1OHA28686-04-00/0759 Subaward | | | |
| | 93.145 | 0057663 (414850-2) | 885 | | |
| Total CFDA 93.145 | | | 200,316 | | |
| Coordinated Services and Access to Research for Women, Infants, | 02.152 | 27/4 | 070.174 | | |
| Children and Youth (Part D) | 93.153 | N/A | 872,174 | | |

Schedule of Expenditures of Federal and State Awards (continued)

Year Ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures | Subrecipient Expenditures |
|--|------------------------|---|-------------------------|------------------------------|
| Federal awards (continued) | | | | |
| Department of Health and Human Services (DHHS), U.S. Health Resources | | | | |
| and Services Administration (HRSA): (continued) | | | | |
| Pass-through Northern Virginia Regional Commission: | | | | |
| HIV Emergency Relief Project Grants (Part A) | 93.914 | GY28-4 | \$ 269,585 | \$ |
| HIV Emergency Relief Project Grants (Part A-MAI) | 93.914 | GY28-4 | 98,496 | _ |
| Pass-through District of Columbia Department of Health: | | | | |
| HIV Emergency Relief Project Grants | 93.914 | 19C066 | 57,854 | _ |
| Total CFDA 93.914 | | | 425,935 | _ |
| Pass-through Virginia Department of Health: | | | | |
| HIV Care Formula Grants (Part B) | 93.917 | INOMAI611GY18 | 876,694 | _ |
| HIV Care Formula Grants (Part B) | 93.917 | INOMAI611GY19 | 2,397,624 | _ |
| HIV Care Formula Grants (HIV/AIDS Resources and Linkages for | | | | |
| Inmates) | 93.917 | INORLI611FY19 | 78,336 | _ |
| HIV Care Formula Grants (HIV/AIDS Resources and Linkages for | | | | |
| Inmates) | 93.917 | INORLI611FY20 | 75,248 | |
| Total CFDA 93.917 | | | 3,427,902 | |
| Grants to Provide Outpatient Early Intervention Services with Respect to | | | | |
| HIV Disease (Part C) | 93.918 | N/A | 867,072 | |
| Centers for Disease Control and Prevention (CDC): | | | | |
| Pass-through District of Columbia Department of Health, HAHSTA: | | | | |
| HIV Prevention Activities Health Department Based | 93.940 | 19C265 | 55,924 | _ |
| HIV Prevention Activities Health Department Based | 93.940 | 20D265 | 14,985 | = |
| 1 | | | 70,909 | |
| | | | | |

Schedule of Expenditures of Federal and State Awards (continued)

Year Ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures | Subrecipient Expenditures |
|--|------------------------|---|-------------------------|------------------------------|
| Federal awards (continued) Department of Health and Human Services (DHHS), U.S. Health Resources and Services Administration (HRSA): (continued) | | | | |
| Pass-through Virginia Department of Health: | | | | |
| HIV Prevention Activities Health Department Based | 93.940 | INOMSM611GY19 | \$ 57,382 | \$ |
| HIV Prevention Activities Health Department Based | 93.940 | INOCHTP611GY19 | 18,782 | |
| Total CFDA 93.940 | | | 76,164 147,073 | |
| Total CI D11 75.740 | | | 147,075 | |
| Pass-through Virginia Department of Health: Maternal and Child Health Services Block Grant to the States | 93.994 | 706B432333 | 485,071 | |
| Total Department of Health and Human Services (DHHS), U.S. Health Resources and Services Administration (HRSA) | | | 6,425,543 | |
| Research and Development Cluster: Department of Defense, U.S. Army Medical R&D Command: Pass-through University of Alabama at Birmingham: | | | | |
| Military Medical Research and Development | 12.420 | W81XWH-16-2-0038 Subaward | 100 522 | |
| Total CFDA 12.420 | 12.420 | 000518323-006 | 108,533 108,533 | <u> </u> |

Schedule of Expenditures of Federal and State Awards (continued)

Year Ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures | Subrecipient Expenditures | |
|--|------------------------|---|-------------------------|------------------------------|--|
| Federal awards (continued) | | | | | |
| Research and Development Cluster: (continued) | | | | | |
| Department of Defense, Uniformed Services University of the Health | | | | | |
| Sciences: | | | | | |
| Pass-through The Henry M. Jackson Foundation for the Advancement of Military Medicine, Inc.: | | | | | |
| Uniformed Services University Medical Research Projects | 12.750 | HU0001-16-2-0006 Subaward 3361 | \$ 120,538 | \$ | |
| Uniformed Services University Medical Research Projects | 12.750 | HU0001-1-92-0031 Subaward 4922 | 72,448 | = | |
| Uniformed Services University Medical Research Projects | 12.750 | HU0001-16-2-0006 Subaward 3462 | 196,150 | _ | |
| Uniformed Services University Medical Research Projects | 12.750 | HU0001-1-92-0031 Subaward 4921 | 206,527 | _ | |
| Uniformed Services University Medical Research Projects | 12.750 | HU0001-16-2-0014 Subaward 3860 | 384,749 | - | |
| Uniformed Services University Medical Research Projects | 12.750 | HU0001-18-2-0032 Subaward 4833 | 148,102 | _ | |
| Total CFDA 12.750 | | | 1,128,514 | _ | |
| Total Department of Defense | | | 1,237,047 | | |
| Department of Transportation, National Highway Traffic Safety Administration (NHTSA): | | | | | |
| NHTSA Discretionary Safety Grants and Cooperative Agreements | 20.RD | Contract No: DTNH2217D00067 | 281,261 | _ | |
| Total Department of Transportation | | | 281,261 | = | |
| Department of Health and Human Services, National Institutes of Health: | | | | | |
| National Heart, Lung and Blood Institute (NHLBI) | 93.RD | HHSN268201700011C | 148,962 | _ | |
| Exercise Therapy for Advanced Lung Disease Trials | 93.RD | HHSN269201400004I | 4,170 | _ | |
| NHLBI Heart and Lung Transplant Sample Collection Project | 93.RD | HHSN268201800089A | 68,834 | = | |
| Cardiovascular Diseases Research | 93.RD | HHSN268201800037A | 11,433 | _ | |
| Pass-through University of Michigan: | | | | | |
| Randomized Evaluation of VAD Intervention before Inotropic Therapy | 93.RD | HHSN26820110026C | 397 | _ | |

Schedule of Expenditures of Federal and State Awards (continued)

Year Ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title | | | Federal Expenditures | Subrecipient Expenditures | |
|--|--------|--|-------------------------|------------------------------|--|
| Federal awards (continued) Research and Development Cluster: (continued) Department of Health and Human Services, National Institutes of Health: (continued) | | | | | |
| Pass-through The University of Utah: Population Health Research Support | 93.RD | HHSN2752018000091 Subaward 10050768-01 | \$ 38,020 | \$ - | |
| Total CFDA 93.RD | | | 271,816 | | |
| Pass-through Mount Sinai Medical Center of Florida, Inc.: Research and Training in Complementary and Integrative Health | 93.213 | UH3AT009149 | 44,098 | | |
| Pass-through University of Washington: Mental Health Research Grants | 93.242 | 5UH3MH106338-05 Subaward UWSC8701 | 12,374 | | |
| Pass-through Icahn School of Medicine at Mount Sinai: Trans-NIH Research Support | 93.310 | 4UH3OD023337-03 Subaward 0255-2293-4609 | 1,569,798 | _ | |
| Trans-NIH Research Support | 93.310 | 5UH3OD023337-04 Subaward 0255-2294-4609 | 237,783 | _ | |
| Total CFDA 93.310 | 73.510 | 0233 2251 1005 | 1,807,581 | _ | |
| Pass-through The Rector and Visitors of the University of Virginia: National Center for Advancing Translational Sciences | 93.350 | 1UL1TR003015-01 Subaward GB10667.PO#2150887 | 195,632 | | |
| Pass-through NorthShore University Health System: Cancer Cause and Prevention Research | 93.393 | 5R01CA214606-02 Subaward EH17-130-S1 5R01CA214606-03 Subaward EH17-130-S1 | 99,132 | | |

Schedule of Expenditures of Federal and State Awards (continued)

Year Ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title | Federal CFDA Pass-through Entity Number Identifying Number | | Federal Expenditures | Subrecipient Expenditures |
|--|--|---|-------------------------|------------------------------|
| Federal awards (continued) Research and Development Cluster: (continued) | | | | |
| Department of Health and Human Services, National Institutes of Health: (continued) | | | | |
| Cancer Detection and Diagnosis Research | 93.394 | N/A | \$ 219,432 | \$ 141,689 |
| Cancer Detection and Diagnosis Research | 93.394 | N/A | 378,744 | 213,409 |
| Total CFDA 93.394 | | | 598,176 | 355,098 |
| Pass-through The Children's Hospital of Philadelphia: Cancer Treatment Research | 93.395 | 1U10CA180886-01 REVISED | 404 | |
| Pass-through Georgetown University: Cardiovascular Diseases Research | 93.837 | 3 U01HL146205-01S1 Subaward 413919_GR413637-IHS AWD-7773585 | 79,050 | - |
| Pass-through The Ohio State University: Cardiovascular Diseases Research | 93.837 | 5R01HL128857-03 Revised, Subaward 60064759 5R01HL128857-04, Subaward 60071070 | 45,967 | =1 |
| Pass-through The Trustees of Indiana University: Cardiovascular Diseases Research | 93.837 | 5R34HL136986-02 | 26,224 | - |
| Pass-through University of Rochester: Cardiovascular Diseases Research | 93.837 | 1R34HL133526-02 Subaward 417061G/UR FAO GR500479 | 2,984 | _ |
| Pass-through Emory University: Cardiovascular Diseases Research | 93.837 | 5R01HL135145-02 Subaward T835203 5R01HL135145-03 subaward T835203 | 17,104 | _ |

Schedule of Expenditures of Federal and State Awards (continued)

Year Ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title | Federal CFDA Number | | | | | Subrecipient Expenditures |
|--|------------------------|---|----------|------|--|------------------------------|
| Federal awards (continued) Research and Development Cluster: (continued) Department of Health and Human Services, National Institutes of Health: (continued) | | | | | | |
| Pass-through Icahn School of Medicine at Mount Sinai: Cardiovascular Diseases Research | 93.837 | 5U01HL125506-03 Subaward 0255-1503-4605 | \$ 2,575 | \$ - | | |
| Pass-through Brigham and Women's Hospital, Inc.: Cardiovascular Diseases Research | 93.837 | 5U01HL130163-03 5U01HL130163-04 | 9,415 | - | | |
| Pass-through New England Research Institutes, Inc.: Cardiovascular Diseases Research | 93.837 | U01HL107407 | 16,935 | _ | | |
| Pass-Through Yale University: Cardiovascular Diseases Research | 93.837 | 7U01HL125511-02, Subaward GR104837 (CON-80001529) 5U01HL125511-03, Subaward GR107815 (CON-80001979) | 63,247 | _ | | |
| Pass-Through Sutter Bay Hospital dba California Pacific Medical Center: Cardiovascular Diseases Research | 93.837 | 2R56HL116832-04 Subaward 280201017-S240 | 22,605 | - | | |
| Pass-Through University of Maryland, Baltimore: Cardiovascular Diseases Research | 93.837 | R01HL136253 Subaward 1701421 | 28,938 | _ | | |
| Pass-Through Brigham and Women's Hospital and Massachusetts General Hospital: Cardiovascular Diseases Research | 93.837 | 5U01HL123336-05 5U01HL123336-06 | 49,887 | - | | |

Schedule of Expenditures of Federal and State Awards (continued)

Year Ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title | | | Federal Expenditures | Subrecipient Expenditures | | |
|--|--------|---|-------------------------|------------------------------|--|--|
| Federal awards (continued) Research and Development Cluster: (continued) Department of Health and Human Services, National Institutes of Health: (continued) Pass-Through The University of Arizona: | | | | | | |
| Cardiovascular Diseases Research | 93.837 | 5U01HL131014-02 REVISED, purchase order 479644 | \$ 1,232 | \$ - | | |
| Pass-Through Duke University: Cardiovascular Diseases Research | 93.837 | 5U10HL084904-12 REVISED | 40,271 | _ | | |
| Total CFDA 93.837 | | | 406,434 | _ | | |
| Pass-Through University of Pittsburgh: Lung Diseases Research | 93.838 | 5U01HL128954-04 Subaward 9012549 (131692-32) | 8,254 | | | |
| Pass-Through The Washington University: Blood Diseases and Resources Research | 93.839 | 4UH3HL138325-02 Subaward WU-18-386-MOD-1 5UH3HL138325-03 Subaward WU-18-386-MOD-2 | 24,862 | | | |
| Pass-Through Johns Hopkins University: Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 5U01NS080824-05 Subaward 2003044854 | 430 | - | | |
| Pass-Through Mayo Clinic Jacksonville: Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 5U01NS080168-05 Subaward INO-224063-01 5U01NS080168-06 Subaward INO-224063-02 | 51,119 | _ | | |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 5R01NS097876-02 Subaward INO-232483 5R01NS097876-03, Subaward INO – 232483-01 | 3,331 | _ | | |

Schedule of Expenditures of Federal and State Awards (continued)

Year Ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures | Subrecipient Expenditures |
|---|------------------------|---|-------------------------|------------------------------|
| Federal awards (continued) Research and Development Cluster: (continued) Department of Health and Human Services, National Institutes of Health: (continued) Pass-through The Rector and Visitors of the University of Virginia: Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | R21NS106480 Subaward GB10629.160426 5R21NS106480-02 Subaward GB10629.160426 | \$ 17,012 | \$ - |
| Total CFDA 93.853 | | | 71,892 | |
| Pass-through Georgetown University: Allergy and Infectious Diseases Research | 93.855 | 3 U01AI034994-24S1 Subaward 413922_GR413835-IHS (BRIDGE FUNDING) AWD-4335044 | 26,199 | - |
| Pass-through The Henry M. Jackson Foundation for the Advancement of Military Medicine, Inc: Allergy and Infectious Diseases Research Total CFDA 93.855 | 93.855 | 1R01AI25552-01A1 Subaward 3978 | 113,097 139,296 | |
| Child Health and Human Development Extramural Research | 93.865 | N/A | 52,642 | |
| DHHS, Administration for Community Living: Pass-Through American Institutes for Research: ACL National Institute on Disability, Independent Living, and Rehabilitation Research | 93.433 | 90DP0082 Subaward 0418100002 | 45,984 | |

Schedule of Expenditures of Federal and State Awards (continued)

Year Ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title | | | E | Federal xpenditures | Subrecipient Expenditures | |
|--|------------------|--|----------|---|------------------------------|---|
| Federal awards (continued) Research and Development Cluster: (continued) DHHS, Agency for Healthcare Research and Quality: Pass-Through Duke University: Research on Healthcare Costs, Quality, and Outcomes Research on Healthcare Costs, Quality, and Outcomes Total CFDA 93.226 Total DHHS, Research and Development Total Research and Development Cluster Total expenditures of federal awards | 93.226 93.226 | 5P50HS023418-04 Subaward 203-7969 5P50HS023418-05 Subaward A032557 5P50HS023418-03 Subaward 203-7623 | \$ | 73,852 31,898 105,750 3,884,327 5,402,635 12,330,741 | \$ | - - 355,098 355,098 355,098 |
| State awards Virginia Department of Health: Maternal and Child Health Services Block Grant to the States | N/A | 706B432333 | \$ | 457,526 | \$ | - |
| HIV Prevention HIV Prevention | N/A N/A | INORCC611FY19 INORCC611FY20 | | 57,564 47,324 104,888 | | _ |
| Pre-Exposure Prophylaxis Related Services Pre-Exposure Prophylaxis Related Services | N/A N/A | INOPrEP611FY19 INOPrEP611FY20 | | 9,972 20,290 30,262 | | _ |
| Total state awards Total federal and state awards | | | \$ \$ | 592,676 12,923,417 | \$ \$ | 355,098 |

See accompanying Notes to Schedule of Expenditures of Federal and State Awards.

Notes to the Schedule of Expenditures of Federal and State Awards

December 31, 2019

1. Scope of Audit Pursuant to OMB Uniform Guidance

All federal grant operations of the System are included in the Schedule of Expenditures of Federal and State Awards and subject to the Office of Management and Budget (OMB) Uniform Guidance compliance audit.

2. Fiscal Period Audited

For program transactions occurring during the fiscal year ended December 31, 2019, the System is required to undergo a Single Audit pursuant to the OMB Uniform Guidance.

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes all federal and state grants to the System that had expenditure activity during fiscal year 2019. The Schedule has been prepared in accordance with OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and on the accrual basis of accounting.

Inova has elected not to use the 10% de minimis indirect cost rate as covered in Uniform Guidance section 2 CFR 200.414 Indirect (F&A) costs.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2019

Section I – Summary of Auditor's Results

Financial Statements

| Type of report the auditor financial statements auditor accordance with GAAF | dited were prepared in | U | nmodified |
|--|--|------------------------------|--|
| Internal control over fina | | 3 7 | V |
| Material weakness(es) | | Yes Yes | X No X None reported |
| Significant deficiency | | Y es | X None reported |
| Noncompliance materia statements noted? | ar to imanciai | Yes | XNo |
| Federal Awards | | | |
| Internal control over maj | or federal programs: | | |
| Material weakness(es) identified? | | X Yes | No |
| Significant deficiency(| ies) identified? | Yes | X None reported |
| Type of auditor's report i major federal programs | | 93.917 HIV (and Unmodifi | compliance for CFDA Care Formula Grants led for the other major lms (CFDA 93.153 and 93.918) |
| <u> </u> | sclosed that are required to be nee with 2 CFR 200.516(a)? | XYes | No |
| Identification of major fe | deral programs: | | |
| CFDA Number(s) | Name of Feder | al Program or C | Cluster |
| 93.153 | Coordinated Services and Acc Children and Youth (Part D | | for Women, Infants, |
| 93.917 | HIV Care Formula Grants (Pa Linkages for Inmates) | , | DS Resources and |
| 93.918 | Grants to Provide Outpatient I Respect to HIV (Part C) | Early Interventio | n Services with |

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2019

Section I – Summary of Auditor's Results (continued)

| Dollar threshold used to distinguish between | | | |
|--|------------|--|--|
| Type A and Type B programs | \$ 750,000 | | |
| | | | |
| Auditee qualified as low-risk auditee? | YesXNo | | |

Section II – Financial Statement Findings

No significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse related to the financial statements for which *Government Auditing Standards* requires reporting for the year ended December 31, 2019 were identified.

Section III – Federal Award Findings and Questioned Costs

Finding Reference Number: 2019-001

Federal Program Information

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Virginia Department of Health

Award: CFDA – 93.917 HIV Care Formula Grants (Part B)

Pass-Through Entity No.: INOMAI611GY18, INOMAI611GY19

Period of Performance: April 1, 2018 to March 31, 2019, April 1, 2019 to March 31, 2020 CFDA – 93.917 HIV Care Formula Grants (HIV/AIDS Resources and

Linkages for Inmates)

Pass-Through Entity No.: INORLI611FY19, INORLI611FY20

Period of Performance: July 1, 2018 to June 30, 2019, July 1, 2019 to June 30, 2020

Criteria or Specific Requirement

In accordance with Title 2 U.S. Code of Federal Regulations, Part 200.303, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Inova Health System "must establish and maintain effective internal controls over Federal awards that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2019

Section III – Federal Award Findings and Questioned Costs (continued)

Per the terms and conditions of the pass-through entity agreement between the Virginia Department of Health (the Department) and the Inova Juniper Program (IJP), IJP "is required to collect the following documentation for client eligibility (a) Proof of HIV/AIDS medical diagnosis, (b) proof and verification of low-income status (at or below 500% FPL), (c) proof of Virginia residency; and (d) insurance status" (INOMAI611GY19 - Client Eligibility Section 1). IJP "will conduct and complete a full Ryan White HIV/AIDS Program (RWHAP) Part B eligibility screening for all clients prior to enrollment in the Ryan White Part B program and annually thereafter. IJP is required to recertify client eligibility every six months (eligibility expires six months from the date the client signs the initial and annual eligibility). If there has been no changes in client income, residency, or insurance at the time of the six-month recertification, IJP will ask client to sign a self-attestation of no changes form. If there have been changes, IJP will obtain needed documentation from the client to verify eligibility" (INOMAI611GY19 - Client Eligibility Section). Additionally, IJP "will maintain required eligibility documentation in one place in each client file" (INOMAI611GY19 - Client Eligibility Section 2). Further, IJP "will verify client eligibility status prior to providing Ryan White Part B Services" (INOMAI611GY19 - Client Eligibility Section 3). IJP "will not be reimbursed by the Department for any services provided to clients whose Ryan White Part B eligibility was not current at the time of service" (INOMAI611GY19 – Client Eligibility Section 6).

The requirements within the pass-through entity agreement with the Department are consistent with those required by the original Federal awarding agency, the Department of Health and Human Services (DHHS), U.S. Health Resources and Services Administration (HRSA). Per the National Monitoring Standards for Part B included on the official HRSA website, it is the provider/subgrantee's responsibility to "maintain client records that contain documentation of the client's eligibility determination, including the following:

Initial Eligibility Determination and once a year/12 Month Period Recertification Documentation Requirements: (1) HIV/AIDS diagnosis (2) Proof of residence (3) Low Income (4) Uninsured or underinsured status. At the six-month recertification one of the following is acceptable: full application and documentation, self-attestation of no change, or self-attestation of change with documentation."

HRSA aligns with the Public Service Health Act Section 2616 – Provision of Treatment (b) (1-2) which states "to be eligible to receive assistance from a State under this section an individual shall (1) have a medical diagnosis of HIV/AIDS; and (2) be a low-income individual, as defined by the State."

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2019

Section III – Federal Award Findings and Questioned Costs (continued)

Per the National Monitoring Standards for Part B included on the official HRSA website, "Income made from charges to RWHAP Part B clients or to insurance companies for services performed is considered program income."

Condition

In 2019, management identified instances of noncompliance regarding missing client documentation to verify eligibility including the annual full Ryan White HIV/AIDS Program Part B eligibility screening (annual eligibility screening) and the required timely six-month recertification. Management determined that in some cases, the annual eligibility screening and six-month recertification was being performed; however, the required documentation was not being retained in the client file. In other cases, there was no evidence that procedures were being performed in accordance with the grant terms and conditions to obtain the required documentation. The clients whose annual eligibility screening and/or six-month recertification was not current continued to receive services that were subsequently reimbursed by the Department.

During our audit, we selected a sample of 60 clients for testing and noted the following:

- There was no evidence that the annual eligibility screening or six-month recertification occurred for six clients.
- There was no evidence that the annual eligibility screening occurred for seven clients.
- There was no evidence that the six-month recertification occurred for one client.

None of the exceptions noted above applied specifically to the HIV/AIDS Resources and Linkages for Inmates (INORLI611FY19 and INORLI611FY20) for 2019, which represents \$153,584 of the total \$3,427,902 recorded for CFDA 93.917 on the schedule of expenditures of federal and state awards.

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2019

Section III – Federal Award Findings and Questioned Costs (continued)

Cause

IJP has appropriate policies and procedures in place to ensure eligibility documents are obtained from all clients in a timely manner and retained in their files. IJP's policies and procedures specify that an eligibility worker will meet with each client for an initial screening to verify residency, income, insurance status, and HIV status. The eligibility worker is required to meet with the client annually and every six-months thereafter to update the required annual eligibility screening and/or the six-month recertification and include the required documentation in the client file. Additionally, at each subsequent visit, the receptionist questions each client as to whether there have been any changes in their income or insurance status. If there are changes to the client's eligibility status, another visit is scheduled with the eligibility worker. Management identified that these policies and procedures were not followed during the year due to lack of oversight and related negligence from various eligibility workers employed during 2019.

Effect

During 2019, eligibility workers did not perform and/or retain the required documentation related to the annual eligibility screening and/or a six-month recertification for certain clients. Services continued to be provided and related costs were reimbursed by the Department. Based on the terms and conditions of the pass-through agreement with the Department, the clients whose eligibility was not current at the time of service would not be considered eligible and any reimbursed cost would represent unallowable costs. Furthermore, program income represents income made from charges to RWHAP Part B eligible clients or to insurance companies for services performed. Program income was recognized on services and charges for clients whose eligibility was not current at the time of service. For clients that received services in 2019, IJP recognized \$188,861 of program income during the year.

Questioned Costs

Indeterminable.

Context

The IJP has not completed a full review of all clients that did not have the required annual eligibility screening and/or a six-month recertification documentation. Further, IJP does not track reimbursed costs at the individual client level. As such, the costs associated with this finding are indeterminable.

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2019

Section III – Federal Award Findings and Questioned Costs (continued)

Recommendation

IJP's existing policies and procedures are in line with the requirements of the pass-through agreement with the Department; however, IJP should continue to evaluate whether appropriate oversight is performed to ensure that these policies and procedures are being followed with regard to eligibility verification for all clients.

View of Responsible Officials

Management became aware of gaps in the eligibility documentation of certain clients in December 2019.

EY | Assurance | Tax | Transactions | Advisory

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Inova Health System Corrective Action Plan Year Ended December 31, 2019

Finding Reference Number: 2019-001

Federal Program Information:U.S. Department of Health and Human Services,
HIV Care Formula Grants (CFDA 93.917).

Pass-Through Agency: Virginia Department of Health (the Department)

| Planned Corrective Action | Person(s) Responsible | Anticipated Completion Date |
|---|--|--------------------------------|
| Notify all appropriate entities, including Inova compliance, human resources, and the Department, about gaps in eligibility documentation. Take personnel action where necessary. | Inova Juniper Program (IJP) Practice Manager, Human Resources, Senior Director of Safety Net Clinics, VP Population Health | Completed. |
| Perform chart reviews and schedule appointments for all clients for a 2020 annual eligibility determination screening. | Quality Improvement Consultant, Project Analyst, and eligibility workers | June 30, 2020 |

| Increase training for eligibility workers on the policies and procedures concerning eligibility. This will include a list of policies that eligibility workers would need to sign annually confirming that they have been educated about and understand the policies and procedures. | Practice Manager and Director | July 1, 2020 |
|---|---|---------------------------------|
| Create more stringent oversight practices. Perform monthly quality audits of eligibility documentation of 110-120 charts which will be reviewed by the practice manager. A second review of approximately 10% of those charts will be completed by the project analyst to ensure oversight and follow through has occurred. A report will be prepared to summarize the findings of the internal reviews and the project analyst procedures. | Practice Manager, QI consultant, Senior Director Safety Net Clinics | Implemented April 2020; ongoing |
| Include an agenda item in the monthly variance meetings with the accounting and grants management office teams. Present an eligibility report with the findings of the internal reviews along with the project analyst reports. | IJP Director and IJP Practice Manager | June 30, 2020 |